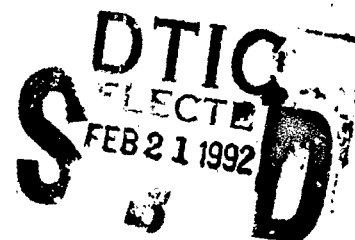


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NAVAL POSTGRADUATE SCHOOL
Monterey, California

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THESIS

The Political Economy
of
Military Base Closure

by
LCDR Richard D. Suttie
and
LCDR Arthur J. Ohanian

December 1990

Thesis Advisor:

P.M. Carrick

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Political Economy of Military Base Closure

by

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Submitted in partial fulfillment of the requirements for
the degree of

MASTER OF SCIENCE IN FINANCIAL MANAGEMENT

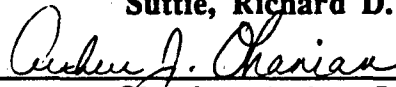
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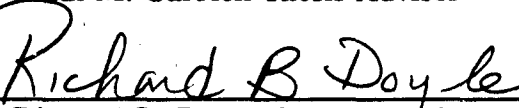

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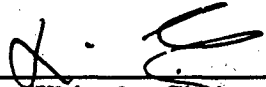
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ABSTRACT

This study investigates the political economy of military base closure: the federal and local public policy process and how it impacts the economic efficiency of public resource allocation. It describes and analyzes the socio-economic factors affecting the communities surrounding military bases targeted for closure. It does not discuss or analyze the base closure decision making process and which base should remain open or close. A primary case study was used for research: George Air Force Base, Victorville, California which has been undergoing the actual closure process for approximately two years.

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TABLE OF CONTENTS

I. INTRODUCTION.....	1
A. BACKGROUND.....	1
B. OBJECTIVE.....	3
C. SCOPE.....	4
D. METHODOLOGY.....	4
E. DEFINITIONS.....	5
F. CHAPTER OUTLINE.....	6
II. HISTORY AND CLIMATE OF BASE CLOSURE.....	8
A. BACKGROUND.....	8
1. Base Structure and Early Closures.....	8
2. Today's Domestic Base Structure.....	9
3. Potential Savings.....	11
4. The Defense Secretary's Commission on Base Realignment and Closure.....	12
B. CONGRESSIONAL HESITANCY.....	14
1. "Pork Barrel" Politics.....	15
2. The Power Game.....	17
C. FORMAL AND INFORMAL IMPEDIMENTS TO BASE CLOSURE.....	18
D. PUBLIC POLICY DECISION MAKING.....	21
1. Public Management.....	21
2. The Public Manager's Self Interest.....	22
3. Summary.....	26

III. ECONOMIC ANALYSIS OF BASE CLOSURE.....	2 8
A. SHOULD CONGRESS LISTEN TO ECONOMISTS?	2 8
1. The Economist's Public Policy.....	2 8
2. Who are the Losers in Base Closure?.....	3 0
3. Base Closure Welfare Redistribution Versus Efficiency	3 2
4. Compensation: Public Versus Private Policies.....	3 6
5. Summary	4 0
B. SOCIO-ECONOMIC CRITERIA OF BASE CLOSURE.....	4 0
C. HISTORICAL LOCAL ECONOMIC RECOVERY.....	4 6
1. "25 Years of Civilian Reuse.".....	4 7
2. Economic Re-development.....	4 8
3. Summary	5 0
IV. CASE STUDY	5 2
A. GEORGE AIR FORCE BASE.....	5 3
1. Victor Valley Communities.....	5 3
2. George A.F.B. Military History	5 5
3. George Air Force Base's Capital Assets.....	5 6
4. George AFB Civilian Payroll.....	5 8
5. Initial Community Reaction to Closure.....	5 9
6. Community Planning, Organization and Coordination with the Office of Economic Adjustment.....	6 2
7. George AFB Base Closure Socio-Economics.....	6 5
8. The George Air Force Base Reuse Question.....	7 2
B. MOFFETT FIELD NAVAL AIR STATION.....	7 6
1. History of N.A.S. Moffett Field.....	7 7
2. N.A.S. Moffett Field Capital Assets.....	7 8
3. Initial Community Reaction to the Moffett Field Closure	7 8

4. N.A.S. Moffett Field Socio-Economic Effects.....	79
5. Summary.....	80
V. CASE STUDY ANALYSIS	82
A. ANALYSIS OF THE SOCIO-ECONOMIC EFFECTS OF THE GEORGE AFB CLOSURE.....	83
1. Winners and Losers in the George AFB Closure.....	83
2. Effects on Community	84
B. THE OBSERVED POLITICAL PROCESS.....	85
1. Political Compensation.....	86
2. The Power Game Exhibited at George.....	87
C. ANALYSIS OF THE GEORGE AFB REDEVELOPMENT PROCESS.....	88
D. CASE ANALYSIS SUMMARY.....	91
VI. THESIS CONCLUSIONS AND RECOMMENDATIONS	92
APPENDIX A	101
APPENDIX B.....	102
APPENDIX C.....	106
APPENDIX D.....	115
LIST OF REFERENCES.....	117
INITIAL DISTRIBUTION LIST.....	120

LIST OF TABLES

Table 1: George AFB Land.....	57
Table 2: Total Family Housing Units and Dormitory Quarters.....	57
Table 3: George AFB Runways.....	57
Table 4: George AFB Miscellaneous Buildings.....	58
Table 5: Value of Capital Assets.....	58
Table 6: Number of Civilian Employees.....	58
Table 7: Summary of Gross Payroll by Classification and Housing Location (\$000's).....	59
Table 8: Growth Projections Victor Valley.....	67

LIST OF FIGURES

Pareto Improvements and Utility Possibilities in Base Closure.....	33
George Air Force Base and Communities.....	54
NAS Moffett Field and Local Communities.....	77
Base Closure Model.....	93

NOMENCLATURE

E.I.S. = Environmental Impact Statement
DoD. = Department of Defense
O.E.A. = Office of Economic Adjustment
E.A.C. = Economic Adjustment Committee
VVEDA = Victor Valley Economic Development Agency
E.R.I.S. = Economic Resource Impact Statement

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I. INTRODUCTION

A. BACKGROUND

The Iron Curtain has fallen. The Warsaw Pact is becoming a distant memory. Soviet President Mikhail Gorbachev has received the Nobel Peace prize for 1990. Thus the threat of Soviet aggression in Europe and of a global war initiated by the Soviets has been dramatically decreased.

At the same time, the United States' budget deficit for FY1991 could easily reach \$300 billion. The United States' national debt is heading well over \$4.1 trillion. Most economist estimates show the the United States is beginning a recession. Because of these significant economic and political events, the United States Congress is currently wrestling with the problem of how to reshape the military forces to reduce the deficit by capitalizing on our improved national security.

Even with the threat of regional conflicts (e.g. Iraq's invasion of Kuwait), it is widely believed in government that the Defense Department can be safely and prudently restructured and downsized to achieve a substantial budgetary savings. As a result, in August of this year, President Bush announced plans to cut the active duty forces 25% by 1995, provided we retain the ability to reconstitute new forces should the need arise.

With a decrease in force structure as the entering argument, it follows that significant savings can be achieved by rethinking America's domestic military base structure and economizing on the operating overhead. Military bases represent a significant opportunity cost both in terms of physical and human values to the employment of these resources in the private or non-defense sector. As such, in his budget submission for FY1991, President Bush and the Defense Department recommended closing 35 domestic military bases and installations.

The base closure issue is complex and politically volatile. It is clear that given the proposed reduction in force and the increased security between the superpowers, that some degree of base closures is warranted and in fact overdue. Yet even with these obvious needs established, Congress ratified in October 1990 an amendment in the FY1991 defense budget to delay military base closures for an additional two years.

There are several reasons Congress chose to defer the base closure decision. Some are due to the perceived negative socio-economic effects on local communities that translate to loss in political control and power for legislators. Others are due to the pure political infighting between major parties for control of the discretionary spending within Department of Defense accounts. Regardless of the reasons, this latest delay by Congress follows eleven years of no military base closures except those initiated by a special commission in 1988.

B. OBJECTIVE

This thesis will endeavor to assess the true socio-economic costs of base closure and the relevancy of these costs to the base closure decision. It will review and examine government reports and historical base closures for economic comparison to the eventual round of base closures in the 1990's. This thesis will address several questions that arise from the fact that so few base closures occurred in the 1980's:

- Why were so few bases closed?
- How do economic and political forces combine to shape military base closure policy — and is that combination detrimental to the efficient allocation of resources?
- Are there economic incentives or disincentives in place to prevent military base closure?
- What are the socio-economic effects on communities from base closure in the 1990's, and are these effects the same as they were in earlier base closure actions?
- Is there a summary blueprint for guiding and understanding the economic transition from a military dependent economy to a privatized economy that minimizes the negative socio-economic impact?

This thesis will additionally seek to determine the economic relevancy of Congressional inaction and protectionism with respect to military base closure. Conclusions from this thesis might assist planners in the future assessment of economic severity and impact on dependent local communities, and that impact's relevancy to the base closure and realignment decision.

C. SCOPE

This thesis is limited to the socio-economics of military base closures on the local communities surrounding a military base. It examines the congressional relationship with the Office of Secretary of Defense in the oversight of the base closure decision, and how that relationship is affected by perceived local socio-economics.

This thesis does not attempt to assess base closure decision criteria in general, only to explain the salience of socio-economic criteria and political processes that are subsets of the decision criteria. Lastly, though much has been written about it, this thesis will not specifically assess the vague environmental costs of base closure. We follow the General Accounting Office's view that these are sunk costs and should not be used as criteria for closure and on one side or the other of the socio-economic impact ledger.

D. METHODOLOGY

The basic form of this thesis is descriptive. This thesis is based on research data obtained by a comprehensive review of literature and through personal interviews conducted with several civic leaders, local businessmen and women, Department of Defense officials, senior analysts of the Government Accounting Office, and members of Congressional staffs.

A case study investigation was conducted at George Air Force Base, Adelanto, California. George AFB was directed to close by 1992 as a result of the Defense Secretary's Base Closure Commission of

1988. Information for the case study was collected via personal interview from the Comptrollers Squadron and Headquarters, George Air Force Base, as well as from the Mayor's offices of the five local communities that comprise the Victor Valley surrounding George AFB. Terry Caldwell, The Mayor, of Victorville, California and Mary L. Scarpa, Mayor Pro Tem of Adelanto, California were especially helpful.

E. DEFINITIONS

The following is a list of terms used throughout this thesis and explained here to obviate any confusion.

The term "Congress" will refer to the appropriate committees in Congress that oversee military base closure. These committees are the Armed Services Committees of the Senate and the House of Representatives, and the Subcommittee on Military Construction (MILCON) in the House and the Defense Appropriations Subcommittee in the Senate.

The term "Commission" will refer to the Defense Secretary's Commission on Base Closure and Realignment established by the Secretary of Defense and approved by Congress on May 3, 1988.

The following terms are explained to define the military base structure in the United States:

- the term "major base" defines a military base with more than 300 full-time civilian employees.

-the term "military installation" includes all the major bases as well as several more minor properties managed by the Department of Defense such as training and bombing ranges, communication sites, Reserve Centers, and outlying landing fields.

-the term "military properties" include all the major bases and minor properties as well as 4,000 other (very small) properties consisting of non-capitalized parcels of land.

The term "realignment" includes any action which both reduces and relocates functions and civilian personnel positions of a military installation.

The term 'local communities' will refer to all incorporated and unincorporated communities located within 50 miles of the military installation being discussed.

F. CHAPTER OUTLINE

The remainder of this thesis consists of seven chapters. Chapter II provides background on military base closure and presents historical information on base closure as a public policy decision making process. This chapter analyzes the political volatility, both at the national and local levels, associated with closure and realignment.

Chapter III examines the literature and documentation on historical socio-economic effects of base closure on local communities. It introduces the Economic Adjustment Committee, analyzes its Civilian Reuse Report, and assesses the Report's relevancy to future closures. This chapter provides an analysis of other literature regarding socio-economic impact and identifies key costs associated with base closure.

Chapters IV and V discuss a case study of base closure at George Air Force Base in Adelanto, California. Chapter IV introduces the case study and gives an account of the George AFB base closure process. Emphasis is on the socio-economic impact and transition efforts of the local communities located in the Victor Valley. Chapter V provides an analysis of the socio-economic impact at George AFB as it compares to historical information from earlier base closures.

Chapter VI presents conclusions based on the this research. It discusses and lists steps to reduce the socio-economic impact of base closure on local communities. A generalized base closure model is provided from the research. It summarizes the economic efficiency or inefficiencies due to the overlapping political policy decisions and economic truths regarding domestic base closure.

II. HISTORY AND CLIMATE OF BASE CLOSURE

A. BACKGROUND

Though the Department of Defense (DoD) is primarily responsible for the structure and execution of the military forces, it must work through a complex framework of governmental direction, guidelines, and agendas. The shared power among the Executive, Congressional, and Judicial branches of the government more often than not determines the scope of choices for the DoD. This has been true through military build-ups, and is especially true in the current climate of military build-down.

1. Base Structure and Early Closures

America's military base structure today is a result of the military buildup that occurred during World War II and continued through the Korean War. During this period, the number of domestic military installations increased ten-fold. It wasn't until 1961 that the Secretary of Defense began to select bases for closure or realignment. During the eight year period from 1961 to early 1969, over 950 domestic defense installations were identified for closure to achieve an estimated savings of \$1.6 billion [Ref. 1]. Approximately 60 major bases were included in these closures. These actions involved the elimination of 220,000 civilian and military positions and the relocation of a comparable number of personnel. During the Vietnam era, base closures and realignments continued to a point

that through 1979, over 150 additional major military installations were targeted and eventually closed. [Ref. 2]

2. Today's Domestic Base Structure

As of 1990, the Defense Department manages over 5,500 United States military properties world-wide. There are 3,800 bases in the United States. Of these, 618 are defined to be major military bases [Ref. 3]. Several of these bases exist today long after changes in the threat, technology, or the size of the force have rendered the mission associated with them obsolete. There are several examples of bases that support obsolete missions, including¹:

- Loring Air Force Base, Maine: built in 1946 as a Strategic Air Command base to support B-47 bombers which required the base location to reach the Soviet Union. This strategic rationale no longer exists and the base is subject to very high operating costs due to inclement weather. For example, the base receives an average of 105 inches of snow a year and snowdrifts pile high enough to clip the wing-tips of the B-52's now stationed there.
- Fort Douglas, Utah: originally built to guard stagecoach routes to the Wild West. Now serves as an administrative post.
- Fort Monroe, Virginia: surrounded by an 18th century moat and originally built in 1834 to defend southeastern Virginia's Hampton Roads from Redcoats. More than 40 years ago it was deemed obsolete as a coastal defense, and now is home to the U.S. Army Training and Doctrine Command and the U.S. Continental Army Marching Band.

¹It should be noted that several other examples of bases that have obsolete missions are now being closed as a result of the Defense Secretary's Commission on Base Closure and Realignment, which is discussed later in this report.

•Fort Sheridan, Illinois: built as an extension to guard Old West expansionism and now is a headquarters for a recruiting district.

Though the Defense Department itself has recommended several hundred bases for closure or realignment in the past ten years, a statutory provision enacted by Congress in 1977 (10 U.S.C. 2687) created procedural obstacles to base closure and as such, no major base has been closed during the ensuing period. Under this law, domestic military bases can not be closed by Defense Department order alone. Congress must be notified and, depending on environmental impact, other assessments and studies must be prepared. This law governing domestic base closures and realignments applies to any proposed action that would close a base where at least 300 civilians are employed or results in a realignment affecting more than half the civilian employees, or 1000 civilians, whichever is lower. Procedurally, Congress is notified of any such proposal as part of the annual budget request. The 1988 Commission was allowed to disregard the 1977 law and yet it recommended closing only four bases with greater than 300 civilian employees. And though this list was approved by Congress, these bases won't actually be closed until 1992 at the earliest.

In January 1990, President Bush, with the concurrence of Budget Director Richard Darman and Defense Secretary Dick Cheney, presented to Congress an FY1991 Defense Budget that included a proposal to close 35 domestic military installations (including 12

major bases). SECDEF Cheney, when presenting the proposed list stated:

"We cannot responsibly reduce the defense budget without looking at bases and production lines. I asked the service secretaries to review their basing requirements around the world at the same time they were reviewing force structure. The announcements I am making today are the result of those reviews and reflect the service proposals." [Ref. 4]

In October 1990, in a decision made during the battle to finish the budget during a continuing resolution, Congress agreed to delay any further base closures (effectively voiding the President's proposed list) until new procedures could be established for shutting down or re-sizing military installations. In that vote, Congress proposed establishing another commission (like that established in 1988) to produce a comprehensive base closure list for congressional consideration by the end of 1991.

3. Potential Savings

The savings of closing military bases, when compared to the total defense budget, are potentially enormous. The President's Private Sector Survey on Cost Control (commonly known as the Grace Commission, after its chairman, J. Peter Grace) concluded in 1983 that a ten percent reduction in the existing military base structure could reduce outlays for operations by \$2 billion per year. Studies by the Office of Management and Budget (OMB) have put the figure

as high as 5 billion year. In 1987, the Defense Department estimated that savings of \$1 billion annually could be realized. The diversity in the savings figures is due in part to the differences in proposed closures and resulting force structure, but it appears savings in the \$1-5 billion per year range are generally accurate. [Ref. 5]

4. The Defense Secretary's Commission on Base Realignment and Closure

On May 3, 1988, then Secretary of Defense Frank Carlucci established the Defense Secretary's Commission on Base Realignment and Closure. The Commission was formed as a result of congressional passage of the "Defense Savings Act," a bill introduced by Congressman Dick Armey of Texas. This bill called for the formation of a nonpartisan commission to select domestic bases which could be realigned or closed without harming the nation's security. Additionally, the bill required that savings to cover the cost of closure be realized in less than six years (the six year payback period implied a rate of return of 10 percent). The Commission was given a six month period to analyze and assess all domestic military bases. In accordance with House Resolution 1583, the Commission was to evaluate the nation's military bases against five factors defining military value:

- How well the base is capable of serving its purpose for deploying combat ready troops
- The availability of facilities such as buildings, runways, warehouses, and piers
- The physical condition and technological sophistication of the facilities

- The quality of life for personnel and families assigned to the base including the condition and availability of housing and recreational facilities
- Community facilities that support the base, including commercial transportation, utilities, complementary industrial activities and expertise.

After examining these factors, the Commission looked at whether to relocate the base's activities or deactivate the units. The Commission was also to consider how closing a base would affect the local communities.

Their report was presented on December 29, 1988. The Commission recommended 86 bases for closure, five for partial closure, and 54 for realignment [Ref 6]. Under the charter of the Commission, this list had to be accepted in its entirety or totally rejected by the Secretary of Defense and Congress. Both the Secretary of Defense and Congress accepted the entire list and the closure process for the selected bases began in January of 1990. The earliest closures will be complete in December 1992.

The Commission's report also recommended that a politically acceptable process be mutually decided on by both Congress and the DoD so that a commission of the same nature would not be necessary in the future. This was because the Commission recognized its significantly limited scope and resources, and that in its view, force structure should define base closures and not the other way around. This was heartily endorsed by the Government Accounting Office (GAO) which strongly disputed the decisions of the Commission claiming that some of the projected savings of closure projected by

the Commission (which led to the recommendation for closing a base) were grossly in error [Ref. 7]. At the time, Congress agreed with the inherent problems of a Commission and informally decided that the Commission was a one-time action.

However, the final FY1991 Defense Authorization Bill orders the creation of a new commission to decide future base closures. With provisions similar to the previous charter, the new commission will be formed in February 1991 and be required to send closure recommendations to the President by July 1. The President, the DoD, and the Congress would all have to approve the list in its entirety. The legislation also authorizes base closing commissions to be re-appointed in 1993 and 1995.

The Defense Department objects to the formation of a new commission and views it as a stalling tactic which chips away at executive power [Ref. 8]. Two questions should be answered prior to an assessment of base closure and socioeconomic effects: What were the problems that required the formation of a base closure commission in the first place — and why the congressional hesitancy to allow the Defense Department to close bases at all?

B. CONGRESSIONAL HESITANCY

The reason that there were no base closures for the last ten years, regardless of the potential savings to the government, can be directed attributed to Congress. There are two widely recognized political themes that lead to impediments to military base closure: "*Pork Barrel*" politics, and "*The Power Game*."

1. "Pork Barrel" Politics

The traditional way that American politicians have kept in great favor with the home folks is to obtain slices of federal "pork" for their districts. Politicians seek money from federal discretionary spending accounts for activities such as dams, mass transit, defense and military bases which create jobs and promote spending in their areas. Over 60 percent of all discretionary spending in the federal budget is in the Defense accounts, and therefore politicians focus their attention on these funds. This power and control obtained from grabbing budgetary pork can lead to great disparities between achieving economic efficiency and maintaining a political agenda as members of Congress have often attempted to keep military bases open in their own districts regardless of the viability of the base.

Quite simply, military bases provide hundreds to thousands of the jobs for local communities and they inject millions of dollars into local economies. For the most part, members of Congress believe the sudden loss of a military base has a large negative socio-economic impact on the local communities and, should the reuse of the base go to private industry, that then Congress would not have control over the dollars that go to the community. To be successful in Congress, one has to maintain a pro-active stance on issues and spending federal dollars in one's district to create jobs re-enforces a perceived "paternal" leadership over one's district. Congressmen and women fear that a loss of a base would directly translate to a loss of votes. As members of the House of Representatives in particular face

re-election every two years, base closure becomes an unsound political decision when weighed against the potential loss of office.

For this reason, since 1961 the news of possible base closures has been an alarming prospect for lawmakers whose districts benefit from the jobs and income the bases create. The negative congressional response to the proposed base closures for FY1991 was unified and strong. For example, on the same day the list was released, one Congressman from Philadelphia *raced* home and called a hurried news conference at the very gates of a shipyard on the list in his district to publicly denounce the proposal. [Ref. 4]

Congressional anxiety over even the suggestion of base closure illustrates the paradox of the current fervor to cut military spending. At the same time that legislators are eager to cut the military budget, they fight in earnest to protect cuts in their own districts¹. As Defense Secretary Cheney stated when presenting the FY1991 defense budget proposal -

"Everyone on Capitol Hill preaches that we don't have a World War II threat and we don't need this World War II military. Fine, but that means you don't need all the troops and you don't need all the bases. The effect of all

¹One of the most illuminating cases on parochialism to date is that of Rep. Sam Gejdenson of Connecticut's 2nd District. Congressman Gejdenson, a nuclear freeze advocate, voted on a single day in 1986 to cut funds for the D-5 missile, which was to be deployed on Trident submarines, and then for an amendment, which he sponsored, he voted to spend an additional \$1.5 billion on the submarine itself. The Trident is built in Groton in Mr. Gejdenson's district. The D-5 missile is not. [Ref. 9]

this red tape and parochial reaction simply makes it harder for us ever to close a base." [Ref. 4]

2. The Power Game

Parochialism is not the only problem. The second problem is the institutional interest in Congress in preventing the Executive branch (through OSD) from having the sweeping power to close military bases. There is widespread fear in Congress that an administration with unrestricted base closure power may use that power as a political weapon to intimidate Congress.

Executive power versus the legislative power of Congress has been a long standing battle on Capitol Hill. Congressional control means influence and power, and control of the discretionary spending within the DoD accounts is an extremely attractive method for Congress to get, and hold on to, power. Congress often accuses the Executive branch of using the discretionary nature of these accounts as a political weapon.

Most recently, of the 21 bases proposed for closure in the FY1991 defense budget, 19 were in Democratic districts. Representative Patricia Schroeder, the Colorado Democrat who heads the Armed Services Subcommittee on Military Installations, accused Defense Secretary Cheney of producing "an unbalanced, partisan hit list." [Ref. 10] Chairman of the the House Armed Services Committee, Representative Les Aspin of Wisconsin, went further and stated -

"Politically, bases can be deleted or perhaps added. That creates hostages for the Administration. Vote against a

vet override, your base is safe. Vote to override, your base is threatened. Simple as that." [Ref. 10]

Most democratic legislators were convinced that the base closure list was 'punishment' for the Democrats who had voted for specific cuts in defense to lead a military build-down in the late 1980's. It purposely created, they felt, an embarrassing paradox in that if they acted to defend the bases in their districts after the President and the military said the base was unnecessary, they would appear to be self serving and two-faced. Historically, these very conflicts represent the struggle for base closure power. To fend off such problems, Congress legislated several impediments to base closure in the late 1970's, effectively limiting the power of the President and further increasing congressional control.

C. FORMAL AND INFORMAL IMPEDIMENTS TO BASE CLOSURE

In order to limit the President's power to close domestic military bases, Congress initiated significant legislation in 1977 that effectively ended base closures for over ten years¹. The most restrictive statute passed was 10 USC 2687, a provision that was offered as an amendment to the Military Construction bill by then-

¹Some domestic bases were closed from 1977 to 1979, but those had been specifically selected for closure, and had begun the closure process, prior to the enactment of the 1976 legislation.

Congressman William Cohen of Maine¹. Section 2687 required the Defense Department to carry out complex environmental impact studies in accordance with the National Environmental Policy Act (NEPA) and meet stringent public notice and comment requirements before it may begin to close a base². In the case of Loring Air Force Base (the first real test case), this statute, though innocuous sounding at first, was instrumental in preventing Loring's closure.

An environmental impact statement (EIS) is required by the statute. An EIS can take as long as two years and cost over \$2 million to complete [Ref. 5]. The military services are responsible for completing it and must present the final draft to Congress for review. Any interested party (congressman or well organized political action groups) can take the military to court and insist that the EIS be analyzed further to consider some previously unnoticed or incomplete aspect. These bureaucratic delays may take several years, during which time the key members of Congress become

¹It should be noted that Congressman Cohen's legislation was introduced shortly after the Air Force announced its intention to close Maine's Loring Air Force Base.

²This environmental legislation, ostensibly to protect the environment from any negative aspects of base closure, came on the heels of a co-sponsored bill by Mr. Cohen and then-Majority Leader Thomas 'Tip' O'Neal. The Cohen-O'Neal bill would have required Congressional approval before any base was to be closed. President Ford vetoed the legislation saying it was an assault on executive branch prerogatives - a position he stated would certainly have been upheld by the federal courts. Approval by Congress is not expressly required in current law. Base closure decisions are initiated by OSD and prior to 1981, OSD exercised an aggressive policy of base closures and realignment. In 1981, Secretary of Defense Casper Weinberger assigned this responsibility to the individual military services. [Ref. 9]

aroused, the local citizenry become mobilized and united, and various members of the press become active to provide even further impediments to closure.

In the Loring AFB case, the Air Force produced the initial EIS about six months after the closure was originally announced, and submitted it for public comment. A well organized public forced a revision and a second report, resulting in a delay of four years. In 1980, the Maine congressional delegation successfully included a line item in an authorization bill which refused appropriation monies for the closure of Loring. In fact, the Maine delegation was eventually able to expand the Loring facility with the money that Assistant Defense Secretary Lawrence Korb said "was shoved down our throats." As a result of the 1976 legislation, and the Loring failure as a model case to use the legislation to political advantage, further attempts to close bases in the 1980's were likewise unsuccessful. [Ref. 9]

The Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987, commonly referred to as Graham-Rudman-Hollings (GRH) II, further restricted the power of the president to close military bases. Once sequestration under GRH II has taken effect, and the budgetary cuts for the Department of Defense have been determined, the president has the authority to exercise flexibility in allocating these reductions. However, according to Title 1 of the Deficit Reduction Procedures, section 252(c) (2) (b), "No action taken by the President... for a fiscal year may result in a domestic base

closure or realignment that would otherwise be subject to section 2687 of title 10 United States Code".

D. PUBLIC POLICY DECISION MAKING

As with any other public policy decision, there are several constraints and political process inefficiencies that must be addressed prior to analyzing results or recommending solutions to resource allocation problems such as domestic base closure. At a minimum, the range for solutions must be feasible. Before assessing the economic truths of base closure, it is necessary to provide background on the political process of public policy decision making - for we may find that some policy decisions to effect true economic efficiencies may not be feasible in American government.

1. Public Management

There are two distinct political levels in the area of domestic base closures - the federal government and the local government. Each has different agendas and strategies, but both are dependent on the same political processes and on each other. Public management is different from private management. Public managers are responsible to a large number of stakeholders, and are often times unclear as to what their stakeholders interests are. These managers are evaluated for their pro-active actions by their ability to maintain bureaucracy and thus power, rather than their ability to generate profits, or in this instance, to save money.

Public managers are successful if they successfully manage the politics (influences) that decide or have control over their

organizational policies. [Ref. 11] These influences include tradition, presidential control (or control directly from above), congressional control, and the electoral process. Governmental power to set new directions is limited by strong tradition and culture, standard procedure, and bias to old norms and against change. Above all, it is the collection and management of power and control that influences the actions of public managers.

Public managers are most like private managers at the operational level, but very different at the strategic level of planning and management. Domestic base closure falls under strategic planning. In general the base closure decision, like strategic planning: [Ref. 12]

- has long time horizons
- has a large numbers of stakeholders (who are hard to clearly identify)
- has a potential for high stakes (high risk and high costs)
- is hard to evaluate (results can change with time)
- involves many intangibles
- is made in an area where no one person dominates in expertise

For these reasons, the public manager (both at the federal and local level) is subject to relevant criticism regardless of the decision he or she makes about base closure and base reuse. Whether the decision is economically efficient may or may not be the overriding concern.

2. The Public Manager's Self Interest

The conventional wisdom for the federal government's inability to close unnecessary military bases is mostly attributed to

self-interest on the part of Congress. and self-aggrandizement on the part of the Defense Department. Rent seeking is a fact of life and economists argue that rather than eliminating self-interest, it should be understood, anticipated, and exploited for the public good. [Ref. 13]

It is true that the military has no reason to conserve land or transfer it to higher-valued nonmilitary uses. It costs them nothing to hold land (once they have acquired real property), and it ceases to be reflected in their operating accounts. Except for the provision in the one time base closure Commission charter¹, the military gains nothing from the sale of land as receipts go to the Land and Water Conservation Fund of the Treasury.

However, the military does not merely hold land, they also use it. Land may be free; using it is not. Its use requires outlays for logistics support, base operations, and general maintenance. These fixed costs are significant to the military and while the military self-interest might lead them to substitute land for labor or capital, to do so beyond the point of negative returns would be in opposition to their own interests. The majority of fixed costs in running a base could be avoided if the base was closed and the mission consolidated

¹The 1988 Commission's charter state that the proceeds from the sale of the military property of the bases selected for closure by the Commission would go directly to an account that would fund further base closure costs - hopefully eliminating special appropriations by Congress or reprogramming DoD monies to support up front base closure costs. It was assumed that most government held lands would be sold at fair market value.

at another base which has excess capacity. The fact that millions of dollars in base operating funds could be saved (avoided) if military bases are closed is prima facie evidence that the returns to the military from the use of land are negative.

Since 1981, the Secretary of Defense has directed that base closure decisions should be initiated at the military service level. The responses to closure nomination requests have been less than enthusiastic. Though it appears the services are giving in to self-interests, one can estimate that this lack of enthusiasm for closure proposals can be attributed to an understandable unwillingness on the part of the services to enrage congressional preferences. By reluctantly submitting closure nominations, the services are acknowledging their shared power relationship with Congress. This reluctance may be correctly managing the sources of influence over their own agenda and objectives, i.e., they are giving in to known Congressional preferences not to close bases attempting instead to obtain high priced weapon systems.

Political self-interest is easy to see (the press seems to report it daily) and seemingly in opposition to reaching an economically efficient resource allocation decision in domestic base closure. To local politicians, bases have become much like entitlements. Civic leaders see bases as stable institutional elements of the tax base, a constant source of jobs and local business contracts, a consistent source for housing renewal and real estate transactions, and an

annual contribution to community affluence through indirect benefits and social programs.

To federal politicians, military bases are considered first and foremost as job programs. Congress feels that any adverse decision regarding base closures in their districts may suggest incompetence or lack of interest in their constituents (pro-active actions are rewarded and perception equals reality for the public manager). The strategic decision to close a military base for some future benefits to the community and a supposed greater economic gain for the country in general is too vague and intangible for the worker who loses his job 'tomorrow.' And the biannually elected Congressman takes a distinct risk to back the long term decision.

Saving real jobs reads better in the local paper than potentially providing new jobs. Economically efficient resource allocation is secondary. The primary Congressional concern is where federal dollars are spent, and the distribution of wealth, rather than what those dollars buy. Ideally, the transfer of military land to its highest economic use would stimulate resource allocations that would have the property that no one could be made better off without someone else being made worse off¹, and therefore should be the

¹This economic concept is defined as Pareto efficient (after the Italian economist-sociologist Vilfredo Pareto) and represents a theory of the most efficient allocation of resources. It does not take into account welfare distribution (i.e. who benefits the most from the allocation), just that everyone in total gets the maximum value of the land. Congress obviously cares about who is made better off by policy decisions.

real self-interest in Congress. Obviously though, maximizing efficiency may not be the same as maximizing the voting block for re-election.

Controlling the budgetary pork of discretionary defense spending suggests that congressional self-interest would always oppose domestic base closure, and therefore economic efficiency. However, in many cases the closure of a certain base would not lead to a more efficient use of the land (even if the military can consolidate missions at another base) and therefore congressional self-interest is economically positive. Clearly, military operational commitments should be used as a decision criteria for base closure and should be weighed against the opportunity cost associated with holding that base. Congressional self-interest helps balance the decision making process.

3. Summary

In summary, public management is different than private management and is subject to several distinct influences, unique reward systems, short decision making horizons, and other political constraints. Domestic base closure is a strategic public policy decision and therefore very difficult to assess. Government officials are primarily concerned with how decisions will affect the distribution of welfare, and secondarily concerned with true economic efficiency. Because of the power struggles between Congress and the Executive branch (including DoD), some base closure recommendations could be politically motivated and therefore,

congressional self-interest may be serving the best economical use of military land in the final analysis.

At a minimum, the public policy decision making process is complex and volatile, and serves as the background for a more thorough economic discussion of public policy decisions with respect to domestic base closure. Although public policy and the self interest of public managers are a large part of the closure decision making process, it does not address the basic theories of economic efficiency which will better define the overall political economy of base closure.

III. ECONOMIC ANALYSIS OF BASE CLOSURE

A. SHOULD CONGRESS LISTEN TO ECONOMISTS?

Base closure is an issue of policy and economics. For this thesis it is not sufficient to assess the socio-economic effects of domestic base closure without addressing the view of economic efficiency in the design of policies. The base closure problem provides fertile ground for assessing efficiency against the distribution of wealth. In general, economists prescribe solutions for situations where private market behavior does not maximize the efficiency of allocation. Congress often enacts policies which substantially alter the economist's suggested solutions in favor of political agendas for the redistribution of wealth. Historically, legislators do not follow the advice of economists in the area of base closure and instead intervene in the process, often leading to inefficiency. [Ref. 14]

1. The Economist's Public Policy

Does Congress take the simplistic, short sighted solution when conducting base closure, attempting to lessen the socio-economic effects of base closure? Or, are there relevant issues that obviate the economist's role (economic efficiency versus politically preferred welfare distribution) in the base closure decision? Economists who evaluate domestic public policies (such as domestic base closure) invariably conclude that problems exist because:

1. prices do not equal true marginal social costs
2. certain markets are nonexistent or underdeveloped
3. negative distributional aspects of market economics such as disinvestment and income fluctuation are altered with specific market interventions instead of a general tax-and-transfer remedy.[Ref. 14]

These problems are generally recognized by economists and non-economists alike, but economic solutions are often ignored by legislators. In an example of the first case, the price or cost to hold land by the military does not equal the true marginal social opportunity costs for that land. To encourage the most efficient use of the land on which military bases are built, the government would be required to charge the military "rent" for using land. This provides an incentive for the military to put the land to its best use, or in other words, to create a situation where the opportunity costs of alternate uses equal the marginal costs to own the land. [Ref. 14]

With respect to the negative distributional aspects of market economies, Congress intervenes in the base closure transition process by enacting policies to compensate specifically chosen individuals and communities who, it is believed, will suffer directly or indirectly from the closure. Here, Congress is placing policies of welfare distribution (through compensation) above those of potential efficiency. Several aspects of this policy deserve attention before we address a specific case study and offer generalized solutions and recommendations.

First, can those who are to suffer from the base closure, the losers, be easily categorized and do they exist at all? *[In the next section we will briefly review the history of base closures from the recovery point of view and the mechanisms in place in the government to assist recovery. We will find out there were far fewer losers than most believe]* Secondly, do the benefits of a certain welfare distribution serve policy makers in such a way that the gains outweigh the loss in potential economic efficiency? Lastly, if compensation is required in the view of the public policy maker, why doesn't private industry mirror the procedures of domestic base closure compensation when a major plant or business is closed in a community?

2. Who are the Losers in Base Closure?

The clearest case to determine winners and losers in the base closure problem is one where a community is isolated, small, and has a major military base adjacently located (within 50 miles). In the beginning, the public policy decision that was made to open the base in this community created a privilege (augmented the income of a particular sector¹) and increased the value of existing assets (homes and businesses). But as entry into the sector occurred, the asset values have returned to their pre-privilege levels. Even if entry did

¹The enactment of a policy privilege creates profit windfalls only when entry is restricted and only for existing owners. Military bases have historically been built on government pre-owned land which was not available for sale; hence, the restriction to entry.

not dissipate the 'rents' entirely, only those entrepreneurs who owned assets prior to the base being opened would have received windfall wealth gains. It follows that those who bought assets after the base opened pay for the increased income, a price that recognized the previous windfall gain, but they do not receive the excess profits.

The reverse occurs when a base closes. Asset values are lowered to below current market value initially, but disinvestment and unemployment occur to restore the equilibrium. If the base can be reused competitively (returning to the value it provided the individuals and the communities), then only those who go bankrupt in the interim lose wealth. If the base is not reused, then those businesses that remain solvent and were in business prior to the base opening would simply lose the windfall gains they had received. Only the firms that opened after the base had been opened and remain in business after the base closure lose real wealth, because they never received the windfalls in the first place. These individuals and businesses (which are economic stakeholders) are the losers if the policy decision is to close the base. However, it would be pragmatically difficult to specifically identify them in any closure situation.¹

¹Even an additional subgroup of these stakeholders would need to be eliminated as losers, i.e. those who foresaw the possible closing of the base and entered the sector at discounted prices or costs.

If we cannot identify the losers, can compensation be justified (and therefore the burden to the federal taxpayer be justified) in other ways? The provision of compensation does improve the probability of enacting legislation that promotes allocational efficiency of the resources that otherwise would be blocked by political action. Historical studies show the costs of base closure are directly related to any delays that occur toward productive re-use. Compensation of the losers has smoothed the transition process, preventing litigation by disgruntled residents which previously delayed the process. Though compensation of this nature is decried by some as favoring the influential and the activist, many of the historical base closure transition decisions did ameliorate legitimate wealth-loss concerns and thus facilitated the transition itself (thereby reducing the overall cost of closure significantly). Therefore, on this level, compensation can be useful even if it is imperfect.[Ref. 14]

3. Base Closure Welfare Redistribution Versus Efficiency

All policy proposals that alter prices or create markets to improve allocational efficiency create one-time wealth gains and losses. Should those who lose wealth because of such policies be protected by political institutions (is the protection necessary?) and if so, what form should that protection take?

Figure (1) displays the difficulties created by economic policy proposals. The axes represent utility for two groups in society affected by a base closure policy decision. Social welfare for the people of a community located near a military base is represented by the distribution A (before any base closure action). Total social welfare is less than it could be in this state (within the welfare frontier) because a decision has been made

Pareto Improvements and Utility Possibilities in Base Closure

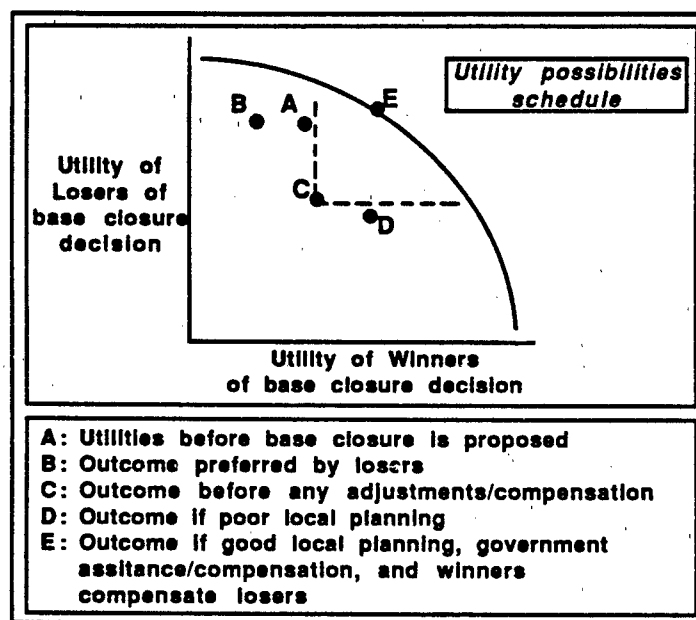


Figure 1

to close the base, inferring that there is a higher valued use for the government owned resources as well as the specialized privately owned resources. Welfare distribution B represents the outcome initially preferred by the losers of a base closure decision (they would choose to keep the base open at the expense of a possible

increase of total social welfare or an increase in the welfare of the winners. After the base is closed, the social welfare is represented by distribution *C*. Those who directly benefit from the closure (via the alternate use) are better off, and those who lose from the closure (firms that opened after the base was open and relied on the base for business) are worse off. It is assumed that in most cases the winners will outnumber the losers and therefore, it should be noted, that the release of government control of the land to local control has made the total welfare slightly larger than the initial state¹.

Economists argue that any policy that moved the economy from *A* to *C* was a *potential* Pareto improvement because the resulting distribution could be rearranged to make everyone better off (i.e. the eventual Pareto improvement in the movement to distribution *E*). [Ref. 14] However, unless it can be shown that the movement to *C* did not result in more goods for some and less for others (which it usually does), political policy makers generally prefer movement back to *A* (up the vertical scale and therefore a

¹Any point on the utility possibilities schedule (the curve itself) is Pareto efficient; no one can be made better off without making someone worse off. Any movement within the dotted lines from (*C*) up to the curve would be a Pareto improvement. Movement from (*C*) to (*D*) would be a movement from an inefficient point (*C*) to a more efficient point (*D*), but would not be a Pareto improvement, since the losers from base closure would be worse off than before. However, it would be a potential Pareto improvement if the winners of the decision would compensate the losers and eventually move the total distribution to *E*. Politicians rarely vote for exclusive gains for the winners (and no gains or losses for the losers) and for just "potential" improvements.

decision not to close the base) regardless of the potential Pareto improvement and the overall increase to social welfare. [Ref. 15]

Therefore as stated previously, Congress is more interested in equity and distribution of wealth than efficiency. In fact, Congress will often decide public policy resource allocation questions in favor of the lower income individual. This is particularly true when the results of the decision are vague and will not be met with resistance. The easiest justification is to claim that the decision will benefit the most people, and from a paternal standpoint, it is particularly politically effective if the benefits go to the poor. This preference to adjust wealth (control the gains and the losses) to favor the lowest income despite opportunity for the potential improvement to overall efficiency is known as Rawlsian economics and policy. [Ref. 15]

In addition, in the area of base closure, Congress manages the movement in utility by using a mixture of majority vote and compensation. In accordance with public law, once a base is closed, a cursory offer for the base is made to other government offices and then, as is the case in most situations, the base is disposed of to the local community(ies) for majority rule reuse. Congress also has established elaborate compensation packages available to enhance the transition process and protect the economic property rights of those who claim to be losers (administered through the Office of Economic Adjustment). Political scientists argue that the problems of mixed gains and losses from policy decision should be managed

exclusively through majority rule instead of compensation. However, a case for compensation can be made for base closure situations.

Where there are mixed gains and losses, the use of majority rule is the only viable alternative to attempt to maximize a citizen's benefits from social decisions (given the uncertainty about his position and the position of his descendants in the distribution of the eventual gains and losses). Majority rule lowers the likelihood that unrepresentative individuals become pivotal and are thus able to extract large sums for their consent to transactions that inflict losses (we will see this clearly in the case study of George AFB). However, the fairness of the majority rule depends on whether there are several decisions and the winners of each are different with each decision. If the losers always lose, then the gains and losses do not balance over time. In the issue of base closure, the decision is one time in nature and thus the issue of compensation is relevant. Therefore, it appears Congress has economic standing to use compensation to enhance the base closure process even if it is difficult to specifically identify the losers.

4. Compensation: Public Versus Private Policies

Historically, major industry does not compensate losers when it closes a major plant. [Ref. 15] If compensation is relevant (in fact required by law) for Congress to use in domestic base closure cases, why aren't private businesses required to compensate individuals and communities when they close a major plant? This question may shed some more light and give economic justification to the process

currently used to dispose of military bases and lesson socio-economic effects of base closure.

Private plant closures closely resemble domestic base closures in that large numbers of stakeholders are affected. The Bureau of Labor Statistics reported that from January 1981 to January 1986, almost eleven million Americans were put out of work due to plant closures [Ref. 17]. A GAO study of business closures between January 1983 and December 1984 found that the median length of prior notification was seven days [Ref. 18]. Thirty-three percent of the businesses provided no prior notification. Only one in seven employers offered dislocated workers a comprehensive assistance package (income maintenance, continued health insurance coverage, counseling, and job search assistance).¹

The abrupt termination of employment has a negative impact on the local community as well. It is estimated that for every 100

¹Companies traditionally have not exercised any obligation to employees or communities by offering extended prior notification and/or compensation (beyond those benefits accrued prior to the plant closure announcement - e.g. severance pay for salaried employees). Legal efforts to enforce one or the other fail as it is believed that there are many circumstances under which mandatory notification would cause:

- a decline in worker productivity
- cancelation of orders for the employer's goods
- an inability to obtain credit
- a drop in the company's stock price
- an inability to sell the plant's capital assets

Some of these results are seen in military base closures as well (e.g. civilian employees tend to relocate well in advance of the official closing date, leaving base offices empty handed).

jobs lost, the local community suffers 200 to 300 job losses as the result of a rippling effect [Ref. 19]. When Bethlehem Steel abandoned much of its operations at its Lackawanna, New York facility in October 1983, 7,300 jobs were terminated in a municipality of 21,700. The layoffs resulted in a loss of \$4.1 million a year in real estate taxes for Lackawanna. City rates increased by 29 percent and the school tax rate increased by 40 percent to cover revenue shortfalls. [Ref. 16]

The primary difference between base closure and private plant closure is the identity and number of stakeholders involved in the respective action. The stakeholders in base closing are the economic losers of the policy decision, which for practical reasons is the great majority of the local community both because individual losers can't be feasibly identified and because the community as a whole is granted stakeholder status by politicians. The legitimate stakeholders in the private plant case are the stockholders and employees. The issue as to whether the community is also a stakeholder has been contested in courts.

In 1979, the town of Youngstown, Ohio, filed a lawsuit against United States Steel for a "breach of contract" to prevent two plants from closing. The two plants employed 3,500 workers and had been a dominant presence in Youngstown since the 1920's. Community officials wanted the company to be held accountable for the expected tax revenue shortages that they claimed could cause the town to eventually declare bankruptcy. The lawsuit sought

compensatory and punitive damages to cover costs incurred by the town. The city's lawyers maintained that the 55-year relationship between U.S. Steel and the people of the Mahoning Valley was analogous to a marriage, and the city was entitled to alimony (compensation). [Ref. 16]

It was determined that the case was worthy of judicial consideration. The presiding judge, Judge Lambros, commented that it appeared a property right had arisen for the lengthy, closely established relationship between United States Steel, the steel industry as an institution, the community in Youngstown, and the people in Mahoning County and Mahoning Valley in having given and devoted their lives to this industry. He continued by saying, "though U.S. Steel cannot be forced to remain in Youngstown, the law can recognize the property right to the extent that U.S. Steel cannot leave the Mahoning Valley and the Youngstown area in a state of waste, that it cannot completely abandon its obligation to the community, because certain vested rights have arisen out of this long relationship and institution." [Ref. 16]

In his final ruling, however, Judge Lambros dismissed the property rights claim by noting, "Unfortunately the mechanism to reach this ideal settlement [from the plaintiff's perspective], to recognize this new property right, is not now in existence in the code of laws of our nation... this court is not a legislative body and cannot make laws where none exist - only those remedies by virtue of precedent of prior case law can be given cognizance. In these terms

this court can determine no legal basis for the finding of a property right." [Ref. 16]

5. Summary

In summary, in some circumstances, there could be legal and political standing for local communities to receive compensation for domestic base closure. Compensation should be limited to the legitimate economic losers of the base closure decision, but these are next to impossible to identify. Beyond pure economics, there is economic justification to using compensation to smooth the transition process and stimulate reuse.

Additionally, the potential Pareto efficient solution may not be as relevant to the military base closure decision as it is for other policy decisions because base closure is a one time action where simple majority rule will cause unfair and less efficient allocation of resources. Therefore, domestic base closure policy as a combination of economic issues of allocation and efficiency appears to be appropriately decided by a combination of self-interest seeking economic and political policies.

B. SOCIO-ECONOMIC CRITERIA OF BASE CLOSURE

The socio-economic effects of domestic base closures can be widespread and devastating to communities and individuals. The federal government officially gives socio-economic standing to all communities located within 50 miles of the military base to be closed. Socio-economic effects are greatest where the base and the communities are heavily interdependent and where the base and

communities are geographically isolated from other regional economic influences. In several closure cases from the 1960's through the 1970's, base closures caused isolated communities in the Northeast and Southwest parts of the country to initially lose over half their economic tax base and job structure. [Ref. 1]

Several socio-economic criteria have been listed by communities and individuals in the past and have been claimed as reasons they should be counted as losers in the domestic base closure decision. The socio-economic criteria most commonly listed are: loss in civilian jobs, the multiplier effect¹ in the loss of employment to the community, the loss in the local economy due to canceled contracts and losses to businesses, loss to community goodwill, loss to business from sales to military personnel, loss to real estate values; and home sales, loss in student enrollments, loss in tax-base (both civic and educational), loss of privileges (hospital, recreational and social, commissary and exchange) for military retired and eligible veterans.

¹The employment multiplier represents the mathematical relationship between employment changes in the basic sector of the local economy and the resulting changes in total employment in the region. The employment multiplier assumes that an increase in community exports, *ceteris paribus*, leads to an increase in nonlocalized (export) employment; that such an increase in employment directly leads to an increase in community income, which as spent induces a derived and calculable increase in localized employment. Essentially, the employment multiplier highlights the total local employment effect resulting from employment changes in nonlocalized or export industries. Military bases depend on a nation-wide network of procurement and services which requires the local service sector of the economy to support an export market (transportation, utilities, communications, contract construction, etc.). This employment effect is very similar to the familiar Keynesian income multiplier.

Though some of these are dependent on weakly established property rights (economically and politically derived), each loss should be considered by policy makers to enhance the closure transition process; but each is not economically worthy of compensation.

As discussed earlier, economic losers of the base closure decision are only those who are subject to windfall losses due directly to the closure of the base, and who are not compensated by the result of the majority rule on the reuse of the base. Therefore, though each economic loss listed above is accurate, it is only relevant for a small segment of the population. However, compensation (in any direct and indirect forms) has been historically given to individuals and communities for each of the criteria listed above, regardless of true economic standing. The political influences for compensation have outweighed the economic influences.

The primary negative effect that local communities and government focus on is the loss of jobs. In some case, the impact of a nearby military base closure on jobs is more severe than the closure of a private concern such as a comparable manufacturing business. The employment and wage structure interjected into a community by the federal government can actually help keep private industry out of the area (particularly when the federal wage rates are higher than would-be private rates). Thus, when the government closes the base, the community is hurt worse than it would have been if comparably sized businesses had been lost. Additionally, it has been shown that communities become complacent with military bases in

their district and do not attempt to attract private business which would help the community.

Socio-economic effects can be predicted by assessing whether communities near bases have a higher ratio of service or support-oriented employment than other comparable communities without a nearby base. Examples of service-oriented employment are:

- contract construction
- wholesale and retail trade
- transportation and communication industries
- finance, insurance, and real estate
- large number of state and local government support offices

A study conducted in the late 1960's attempted to define the interdependence of bases and communities. [Ref. 1] The study first defined a "locational quotient" as the measure of the relative concentration of employment in a given industry in one area (the subject economy) as compared to another area (the benchmark economy). The locational quotient was used to highlight interdependent base-community relationships where secondary job losses could be significant with base closure. The job losses in these base closure situations were then regressed against the reduction in average military and civilian employment. The results disclosed that the employment multipliers for DoD personnel assigned to operational bases were statistically significant and meaningful: *the loss of 100 civilian personnel can be expected to result in the loss of 258 jobs in the service sector within six months. Similarly, the*

transfer of 100 military personnel from any operational base¹ can be expected to result in the loss of 66 service jobs in the local economy.

The study indicates that for isolated communities which have not significantly diversified their dependency away from the government (and consequently have a large service-oriented employment sector), there is a considerable initial socio-economic impact (in direct and indirect job loss) that should receive economic and political attention from responsible governments.

Two other criteria are worth special mention. The first is the loss of retail sales and the effects on local retail business. Military bases are mostly self-contained and self-sufficient in the retail sales as the Exchange and Commissary structure is extensive. Studies have shown that only 40 to 45 percent of the gross military payrolls of nearby installations are actually spent in the local community. This spending generally accounts for only a small proportion of the total buying power of the area. Therefore only a very small number of local retail sales businesses will be affected to a significant degree (specifically any who are located "just outside the gate" and exclusively cater to military).

Secondly, much has been written about the effects on the local housing market with respect to a sudden base closure announcement.

¹The distinction of an "operational" base vice a "training" base is important here: training bases are subject to vastly different personnel strengths. These bases usually have a larger number of enlisted personnel who are temporarily assigned to the area, who have lower incomes, and who do not usually bring dependents (if any) to the area.

Though the dependent variables to assess the impact on a particular housing market by base closure are highly correlated¹, studies have shown market prices to be sensitive economic indicators of the socio-economic effects on the community as a whole. Gross demand for residential housing in any community is highly inelastic (over a relevant range) with respect to price. When a base closure is announced, the local housing market normally experiences "soft" conditions. Many homes are simultaneously offered for sale and there are few buyers. Immediate housing impacts are normally severe, though as we will see in the next section, recovery is fairly rapid along with the economic adjustment due to base reuse. [Ref. 1]

For those families who are "forced" to relocate when a base closes and who cannot financially wait out the readjustment period, Congress authorized the National Housing Act of 1965. Section 1013 of this act established a Homeowners Assistance Revolving Fund to compensate military and civilian personnel for the major portion of their losses in disposing of their homes following military base closures, where "in whole or in part, there is no present market for the sale of such property upon reasonable terms and conditions." Under this program, any individual homeowner may elect either (1) to dispose of his or her home through private sale and to accept

¹Growth, or lack of growth, in a particular housing market can be a result of several criteria, many of which may have a much larger influence than the closure of a local military base. Overall growth rates in a community, other major business activities, the overall state of the economy (boom or recession), and any number of other influences can skew cause and effect studies.

compensation for the difference of up to 95 percent of the local market value prior to the closure announcement, or (2) to transfer the property to the government for compensation of up to 90 percent of the the pre-closure value. The federal government is also authorized to effect payments in lieu of taxes to the local jurisdictions for all of its local property holdings. The responsibility for managing the local properties rests with the FHA which is likewise compensated for its expenses.

C. HISTORICAL LOCAL ECONOMIC RECOVERY

Two natural questions arise: Given all the potential negative socio-economic effects of base closure, what has been the actual results of closure decisions, and are claims for compensation valid? Historically, each and every time a base closure has been announced, the initial reaction by individuals, local business, and local government has been to decry the potential economic losses and mobilize to prevent bases from closing (regardless of the value of the base to the military, or the highest valued use of the land to the government and its people). Before assessing the socio-economic effects of a current base closure, we shall briefly detail the results of base closure on local communities in the past.

To alleviate the negative socio-economic effects of base closure on local economies, the Economic Adjustment Program was initiated in May 1961 and, since 1970, has been rendered through the Economic Adjustment Committee (EAC). The EAC is composed of 18 federal departments and agencies and chaired by the Secretary of Defense

(see Appendix A). The Office of Economic Adjustment (OEA) serves as the permanent staff for the Committee. The background and history of the EAC and the OEA is described in Appendix B.

1. "25 Years of Civilian Reuse."

A report published by the Economic Adjustment Committee in May 1986, entitled "*1961-1986: 25 Years of Civilian Reuse*," provides an optimistic summary of completed military base economic adjustment projects (both closures and realignments). The report is a summary of 100 military base economic adjustment projects and focuses on the military and civilian job losses, the replacement jobs, and the principle industrial/commercial/public reuse activity and its eventual impact on the community.

In summary, the report found:

- New jobs (138,138) more than replaced the loss of 93,424 DoD civilian jobs - including 127,889 jobs from new plants and firms.
- Twelve four-year colleges and 33 post-secondary vocational technical schools or community colleges with 53,744 students are on the former bases.
- Industrial and office parks are located at 75 of the 100 former bases.
- Forty-two former DoD facilities are being used as Municipal or General Aviation Airports.
- All 100 of the bases have been reused by civilian organizations in one form or another. [Ref. 20]

The report further states that the transition period (described as being 2-3 years) in securing new civilian uses can be difficult for many communities. [Ref. 20] The report does not

comment on any of the other socio-economic effects listed in the previous section of this thesis and whether they have been offset by the reuses of the military bases.

2. Economic Re-development

An extended 1970 study by a Department of the Air Force budget and systems analyst, Mr. John E. Lynch, details several economic recovery examples that go much further into the socio-economic effects of base closure and how well the communities have recovered. Though the study is dated, there are several elements and recommendations from it that have been echoed in more recent studies and Congressional testimonies.

In his work, Mr. Lynch studied twelve base closures from Roswell, New Mexico, to Presque Isle, Maine, and reported on initial closure effects, economic interdependencies, recovery strategies, economic and political recovery efforts, recovery problems and delays, and final recovery appraisal. A summary of these effects follows.

The vast majority of the cases studied by Mr. Lynch found communities heavily dependent on the payroll and other economic effects of the local military base. Ten of the twelve communities studied reacted to the closure announcement with characteristic frustration and anger. These communities formed anti-closure coalitions which initially were supported by local political leadership and press. All attempts to stave off closure were fruitless, and it was

generally a matter of months before each community began to work on reuse and redevelopment issues. [Ref. 1]

The initial effects of closure were all projected to be grave for each case studied, yet only proved to be bad for a third of the communities. [Ref. 1] And these were only initial effects. In every case where redevelopment efforts were organized (in all cases with help from the OEA) and quickly implemented, the longer term effects were generally positive. The worst cases were recorded when there were several local communities surrounding one base that could not agree and coordinate reuse.

Perhaps the most visible example of community discord in recovery efforts took place with the proposed closure of the Mobile Air Material Area (MOAMA) at Brookley Air Force Base in 1964. An initial task force was created with the objective of attracting "\$200,000,000 of industry to the area in the next five years." [Ref. 1] The task force was composed exclusively of business and political leaders. Dissention developed and culminated when the mayor of Mobile (not included in the original group) established a "Battle for Brookley" committee. This organization included labor and religious participation. The dissension between the two groups together with the disagreement between those who wished to continue a political battle to save Brookley from closure, and those who wished to begin practical economic recovery plagued the Mobile County communities for well over a year. This community disagreement postponed

effective community-wide recovery efforts for nearly two years into 1986.

In the Mobile case, the study concluded that the recovery delay contributed to the socio-economic effects felt by the region. Total employment initial dropped 5 percent (106,000 to 101,000) when the base closed, but continued to be depressed for another two years. Eventual reuse (the base was turned into an industrial park) helped increase employment to over 110,000 and additionally contributed to the tax base by 15 percent over pre-base closure levels. [Ref. 1]

In all of the case studies, initial socio-economic effects experienced were less than projected. And in all cases but one¹, the growth rates in population, housing, tax base, and business income eventually outpaced projected rates had the military bases remained and the communities been forced to aggressively pursue private industry.

3. Summary

In summary, both the EAC report and the John Lynch study suggest that the negative socio-economic effects assumed with

¹The closure of the Black Hills Army Depot in Edgemont, South Dakota (1964) was the one case that at the time of the study (1970), showed continued economic troubles directly attributed to the base closure. Edgemont is located in an isolated corner of South Dakota and suffered long term declines in population, business net income, real estate values, and increases in residential and commercial vacancy rates. Even a recent check in 1990 shows lingering effects in that growth rates in Edgemont have not kept pace with comparable communities in South Dakota.

domestic base closure are at worst temporary and eventually turn to positive gains given community accord in redevelopment steps. The OEA has been critical to assisting redevelopment and smoothing the transition process. This in turn has avoided potential costs to the base closure process and helped bring about economic efficiency in resource allocation and in the government. The case study to follow seeks to compare and contrast these historical results with a closure currently in process.

IV. CASE STUDY

The purpose for introducing a case study in this thesis is to research and examine the socio-economic and political relationships pertinent to military base closure in the 1990's. Our primary case study is that of George Air Force Base, Adelanto, California. George is in the process of being closed (formal closing procedures began in January 1990) as a result of the 1988 Commission's recommendation and will be completely closed by December 1992. George was chosen as our primary case study because it appeared to employ a significant percentage of the local population and with its four neighboring communities, was geographically isolated and mutually interdependent — highlighting what could represent the severe socio-economic effects of base closure in general.

As an addendum to the George AFB case study, we include some key comparative elements from a study on Moffett Field Naval Air Station, Sunnyvale, California. Moffett was proposed for closure in the President's FY1991 Defense budget and clearly represents a military base located in a highly prosperous economic climate that would seemingly not miss the civilian payroll that the base brings to the surrounding communities. The data from Moffett will be used to compare and contrast the socio-economic data from George.

This case study will demonstrate how communities faced with military base closure in the 1990's react to the closure of their military installation, how they perceive the socio-economic effects of

closure, and how they combine economic and political resources to smooth transition away from dependency on the federal government. This case study will also highlight how the Office of Economic Adjustment assists in the base closure process. Finally, it will also examine the relevancy of base reuse in determining successful transition.

A. GEORGE AIR FORCE BASE

George Air Force Base was established in October of 1941 in the heart of the Southern California Mojave Desert approximately 110 miles from Los Angeles. At that time, four smallunincorporated communities surrounded George and immediately embraced the base as their major local employer. These communities are now incorporated and are Victorville, Adelanto, Apple Valley, and Hesperia (see figure 2). Adelanto and Victorville are the closest communities to George and share borders with the base. Known as the Victor Valley, this area has a total population of over 200,000 people. George AFB itself houses approximately 6,000 military personnel and their dependents. [Ref. 21]

1. Victor Valley Communities

The City of Adelanto encompasses 23,325 acres of land and has a population of about 11,000 people. Only 5,000 acres in the central part of the city are actually developed. Growth (projected at near 20 percent annually) is expanding to the south and the east, toward George AFB. Land use near the border with George AFB is zoned primarily for general manufacturing and commercial

development. Residential areas of Adelanto are currently exposed to noise levels between 65 and 75dB from aircraft operations at George; commercial areas are exposed to noise levels reaching 80dB, [Ref. 22]

George Air Force Base and Communities

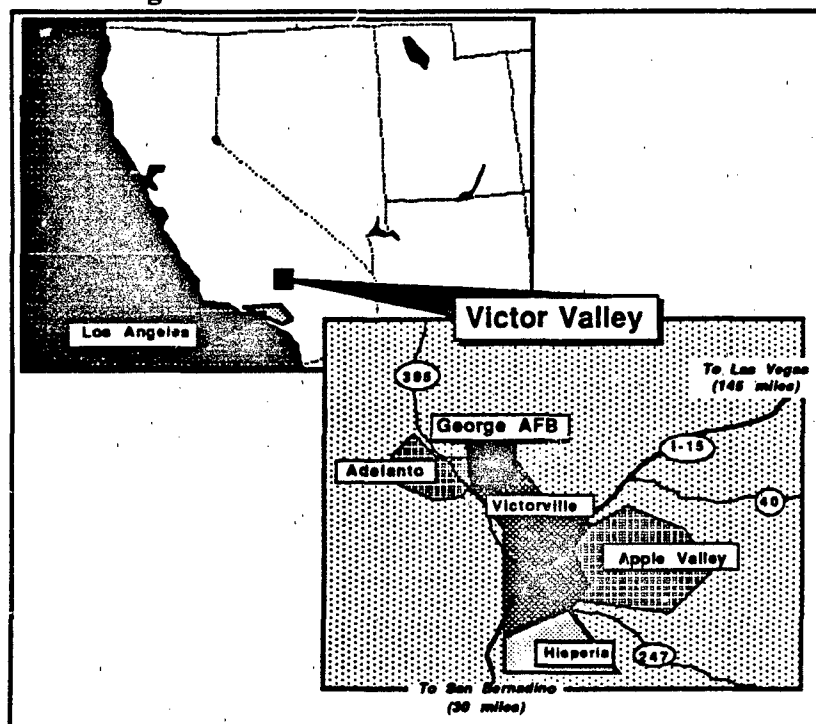


Figure 2

Victorville encompasses 33,283 acres and has a population of 31,700. George AFB represents Victorville's eighth largest employer. All the communities in the Victor Valley are primarily "bedroom" communities for an expanding population who live in the Victor Valley and commute to work into the San Bernadino and Riverside areas (approximately a 45 minute commute on Interstate 15). A large portion of retired families live in the area as well. Overall

growth in the area has been five percent per year for the past five years and is projected to remain steady. [Ref. 23]

Adelanto and Victorville, which have the highest proportion of George AFB personnel in relation to total population, provide a full range of services for George. Adelanto provides general government, fire protection, street and highway maintenance, community developments, water (from its own wells), and disposal of solid wastes. Victorville provides general government, fire protection, street and highway maintenance, and community development. Water is provided primarily by the Victor Valley County Water District. [Ref 21]

2. George A.F.B. Military History

Initially called the Victorville Army Airfield, the base was later renamed in honor of the late Brigadier General Harold H. George, a World War I Ace. The base was activated in 1941 under the jurisdiction of the Commanding General, West Coast Air Corps Training Center. Training began in February 1942 on various types of bomber aircraft, including the B-25 and the B-24, and continued throughout the second World War. After the war, George AFB was no longer required as a training center, and in 1945, the base was placed on a "stand-by" status and used to store surplus B-29's assigned to the Air Technical Service Command.

The United States Air Force was born in the late 1940's and the base reentered active service in 1950 when the 1st Fighter Interceptor Wing was assigned to George as part of the Continental

Air Command and the Fourth Air Force. In September 1953, the 479th Fighter Bomber Wing was moved to George and became the first supersonic wing in the Tactical Air Force. The first F-4 Phantom II's arrived in 1962 and the base's primary mission was changed to defense interception. In 1975, the first F-4 "Wild Weasel" squadron arrived to conduct the anti-air suppression mission and has been a constant at the base ever since.

In 1985, the aging F-4's were mostly replaced by the newer and more sophisticated F-15's. Also, the 39th Tactical Fighter Squadron (established in 1982) was decommissioned and became the 35th Tactical Training Wing. In June 1984, George AFB became the home of the 27th Tactical Air Support Squadron, a tenant unit of the 602nd Tactical Air Control Wing, flying the OV-10 Aircraft. [Ref. 24]

George AFB was selected for closure by the 1988 Base Closure Commission. Some of the military units at George will deactivate while the majority of base operations will be relocated to Mountain Home AFB, Idaho. The base is scheduled to close by December 1992, but a caretaker force of approximately 100 will remain if the base facilities have not been turned over to a new user.

3. George Air Force Base's Capital Assets

George Air Force Base sprawls over 60,000 acres of the California desert and has over 1,600 family housing units, a fully equipped 30-bed hospital, a modern fire station, 26 permanent and temporary lodging facilities that can accommodate 1,786 people, two

large aircraft runways, and housing for nearly 2,500 families. The total replacement value of George's capital assets is over \$175 million. The following tables detail George's capital structure at the end of 1989 (all data extracted from Ref. 24).

TABLE 1: GEORGE AFB LAND

<u>Land</u>	<u>Acres</u>
Fee owned	3,150
Easement, Right of Way	274
Leased	6
Donated	1,920
Other	5,614
Total	61,495

TABLE 2: TOTAL FAMILY HOUSING UNITS AND DORMITORY QUARTERS

<u>HOUSING</u>	<u>2-BR</u>	<u>3-BR</u>	<u>4-BR</u>	<u>Total</u>
Officer	23	56	66	145
Enlisted	733	485	278	1,496
Total				1,641
<u>QUARTERS</u>	<u>NUMBER</u>		<u>BED CAPACITY</u>	
Airman/NCO	19		1,671	
Visiting Airman	1		23	
Visiting Officer	2		52	
Temporary Lodging	4		40	
Total	26		1,786	

TABLE 3: GEORGE AFB RUNWAYS

<u>Runways</u>	<u>Width(ft)</u>	<u>Length(ft)</u>
North/South	150	10,050
Crosswind	150	9,126

TABLE 4: GEORGE AFB MISCELLANEOUS BUILDINGS

<u>Buildings</u>	<u>Number</u>	<u>Square Footage</u>
Aircraft Maintenance	47	534,582
Civil Engineering	20	91,429
Base Supply	22	271,299
Administration	47	307,704
Commissary	1	47,971
Recreation	30	127,628

TABLE 5: VALUE OF CAPITAL ASSETS

<u>Capital Assets</u>	<u>Value</u>
Land	\$1,147,273
Buildings	\$125,286,367
Other (Radar Tower, sidewalks, Runways)	\$49,834,060
Replacement Cost Total	\$176,267,700

4. George AFB Civilian Payroll

George Air Force Base employs over 600 civilians from the local communities. Tables 6 and 7 detail the demographics of these employees and the total amount of the dollar employee payroll. In addition, it is estimated George Air Force Base indirectly creates over 3,500 secondary jobs in the local communities (multiplier effect). [Ref. 24] When these jobs are tied to the existence of George AFB, George becomes the major influence on jobs in the local communities.

TABLE 6: NUMBER OF CIVILIAN EMPLOYEES

AAFES Base and Area	205
NAF	245
Contractors/Others (estimated)	158
Total	608

**TABLE 7: SUMMARY OF GROSS PAYROLL BY
CLASSIFICATION AND HOUSING LOCATION (\$000'S)**

Classification	Living On Base	Living Off Base	Total
<i>Appropriated Funds Military</i>			
Permanent Military	\$43,743	\$68,403	\$112,146
<i>Appropriated Funds Civilian</i>			
Total Civilians			\$12,067
<i>Nonappropriated Funds and Other Civilians</i>			
Contract Civilians (NEI*)			\$79,000
Private Businesses on base by type:			
Branch Banks			\$133,613
Credit Union			\$591,590
Other (AAFES Vendors)			\$38,282
Civilian NAF/BX			\$3,930,841
<i>Military Retirees</i>			\$27,985,000

**Not Elsewhere Included*

5. Initial Community Reaction to Closure

When the George Air Force Base closure was announced as a part of the Base Closure Commission's report in late December 1988, most of the community reacted just like communities before them have, with disbelief, outrage, fear, and a feeling of betrayal. Many, including community leaders and the leadership at George, felt that George would always be a part of the Victor Valley and that the Base Closure Commission had erred in assessing George's military value [Ref. 23]. Small organizations from each community were formed to attempt to fight the closure. [Ref. 25]

Several factors contributed to the reaction of the local residents. First, when the announcement to close George appeared in the local press, a time table for the closure was not included. Additionally, the instinctive view of the residents was that the base

would close abruptly instead of the two year gradual deactivation that is taking place.

As a result of these feelings, several letters were sent to the local district representative, Congressman Jerry Lewis (California's 35th District). One local television station aired a special report which predicted "a 25 percent loss of economic affluency in the Victor Valley directly related to closure." [Ref. 26] Even as late as February 1990, in response to the draft Environmental Impact Statement prepared by a staff under Captain Wilfred Cassidy, Tactical Headquarters, Langley AFB, several citizens and retired Air Force personnel from the communities were trying to fight the closure (examples of correspondence can be read in Appendix C). It wasn't until the Spring of 1990 that community leadership began to organize toward base reuse and completely abandon all hope of keeping George AFB open.

Initially, the residents of the two neighboring communities, Adelanto and Victorville, felt the closing of the base would cause economic hardship throughout the area. Such things as new home construction began to slow, loans for the purchase of new and existing homes became difficult to obtain. Banks anticipating a glut of homes on the market at approximately the same time came to the conclusion that it would not be a wise business decision to extend themselves further in the Victorville area. Interviews with local real estate agents indicated that this slow-down lasted six to twelve months.

George Air Force Base employs over 600 civilian employees that are working in various departments of tenant commands throughout the base. These employees are in various jobs such as contracted food services, budget analysts, and receptionists and secretaries. The initial reaction of these employees was one of concern for their job security. Many felt they would be without a job, and offered no restitution, compensation, consideration, or further opportunity for government employment. [Ref 27]

Grievances were filed with the appropriate labor unions and arguments were heard before visiting Congressional staffs and members of the President's Economic Adjustment Council. Civil servants were informally told that they would either be:

- relocated at their option to other bases, or;
- given a chance for further government employment at another location, or;
- given an opportunity for other types of Federal employment, or;
- offered expanded and extended worker compensation benefits if the other employment options were not acceptable.

Military employers of these civilians observed that once the closure announcement was official, the senior and most experienced civil servants quickly found employment (on their own behalf) in other areas. By not waiting and relying on the government to offer them other employment options, the civilian employees assured themselves of finding acceptable alternative employment. It was noted that these more experienced civilian employees were the

people that base management was depending on to assist in the closure of the base.

Another initial reaction to base closure was the Air Force's immediate halt of construction projects which were only partially (40 percent or less) completed, and the decision not to award further construction projects to civilian contractors. Local residents reacted angrily believing that the majority of the construction on the base was completed by local contracting personnel. However, due to the Air Force's restriction to award contracts to the lowest bidder, this was not necessarily the case. In fact, all of the new construction then underway at the base was being completed by contractors outside the local (50nm radius) area.

6. Community Planning, Organization and Coordination with the Office of Economic Adjustment

Soon after the base closure announcement in late 1988, several emerging leadership groups contacted the Office of Economic Adjustment (OEA) and requested assistance. The office assigned project manager Ken Matzkin to the George AFB closure (as well as other closures in the Western United States). Mr. Matzkin visited each community and group and provided them with an information packet detailing the assistance that was available from the OEA and the EAC. He observed a developing friction among the communities with regard to the reuse of the base, as well as lingering bad sentiment about the closure itself. His first recommendation was that each community government form an organization that would,

as a single entity, be able to work with Washington D.C. on the closure. This had worked well in the past where there were several local communities affected by a base closure. Soon thereafter, the cities of Victorville, Apple Valley, and Hesperia formed the Victor Valley Economic Development Authority (VVEDA). The City of Adelanto declined to participate and instead isolated themselves to their own agenda. [Ref. 28]

The Mayor of Adelanto, Edward Dondelinger, is a retired Air Force Master Sergeant who had worked at George AFB for several years just prior to retirement. Two points separated his view of the reuse of George from that of VVEDA. The first was that he effectively claimed "first rights" for George. He pointed out that George AFB used Adelanto's water supply, had two Adelanto schools on the base itself, was closest to Adelanto and affected Adelanto more than any other one city. The second point he envisioned was that the George would become an international airport.

Dubbed the "Super-Hub of the Southwest" (to be officially called the *High Desert International Airport*), this facility could become a transportation hub able to serve 50 million passengers each year, provide for a large volume of cargo and freight operations, and even accommodate future generation hypersonic and sub-orbital aircraft currently in development. To garner early control of the base reuse, Adelanto submitted several offers to the DoD to purchase the base in "as is" condition. All were turned down by the OEA — the last offer being a down-payment check of \$2 million. [Ref. 29]

In the mean time, the Office of Economic Adjustment and the U.S. Air Force organized a tour of several past successful base closure sites for the civic leaders in the Victor Valley. The Air Force flew these politicians and influential business leaders at no charge to six cities around the country that had not only survived base closure but had actually thrived. The trip went a long way to influence the community leadership to actually embrace the base closure as an opportunity to diversify away from federal government dependencies. Mayor Terry Caldwell of Victorville stated that due to that trip, all the communities, with the exception of Adelanto, had become cohesive in working together to redevelop George to everyone's advantage. [Ref. 23]

The OEA also gave VVEDA a \$95,000 grant to help pay for the cost of a formal redevelopment survey and assessment. This money also went to pay for professional analysts from the County of San Bernadino who would advise VVEDA on options and help with promotional methodology. The VVEDA redevelopment plan was centered around the idea to reuse George as a small regional airport (only very small community airfields currently exist). Since this plan seriously disagreed with that of Adelanto's, Adelanto continued to refuse to negotiate or participate in the VVEDA efforts. [Ref. 30]

The OEA, in order to effectively coordinate redevelopment of George, had to work cooperatively with all the local communities. Adelanto's insistence on opposing VVEDA caused reuse efforts to slow considerably — endangering the immediate reuse when George

closes in late 1992. Adelanto threatened to "litigate the environmental reuse factors to the maximum extent," thus effectively preventing any reuse for an indefinite period until they were given priority for redevelopment. [Ref. 26] The closure of George would mean economic loss to Adelanto, but by far the most significant aspect of reuse was Adelanto's potential gain.

In early November 1990, Adelanto played its "political cards" and called a special meeting for all Victor Valley community leaders to be held at Adelanto's expense in San Bernadino (a neutral site). Mayor Dondelinger of Adelanto used the media to promote the concept that he was now going to be the political "savior" for the George redevelopment controversy and bring all sides together for a compromise. Though no official resolution was made during the two-day talks, both sides tentatively agreed that a study should be done to analyze the positive and negative effects of George becoming a large regional airport and industrial center, with the possibility of expansion and growth at a later time.

7. George AFB Base Closure Socio-Economics

Despite the early predictions of economic demise during the initial reaction to the George AFB closure, the communities have not, nearly 3 years after the announcement, shown signs of an economic downturn. Several economic effects were studied, but we focused on local business and real estate, population trends, and jobs.

Real Estate. "This may be more of an opportunity for my office than I ever thought," said Larry Demers, the manager of Tri-

Valley Realty located just two miles from the George AFB main gate. [Ref. 31] Mr. Demers, more than any other business person we met, saw the negative initial effects of the closure. Over fifty percent of houses in the sub-divisions that he covers are occupied (rented or owned) by George AFB employees and military. Mr. Demers said that local real estate business "dried up" and he was forced to concentrate his business toward commercial real estate and the downtown area of Victorville for the first six months after the closure announcement. However, just six months after the closure process had begun, he noticed that new construction returned and the predicted glut of homes for sale on the market never materialized. The San Bernadino County Real Estate Board seconded his observations. In fact, home values have appreciated nearly five percent in the past year. [Ref. 31]

Population Growth. Overall population growth is pointed to as the reason for the lack of a local housing and business recession. The Victor Valley has experienced a steady growth rate approaching 10 percent for the past ten years, and is estimated to conservatively be closer to five percent over the next 20 years (see Table 8). [Ref. 21] Adelanto, starting from a smaller base, has had an annual growth rate over 20 percent. The Victor Valley is an attractive location for retirees and commuters offering clean air, low crime rates, large properties for homes, and many small service industries to support families. Things weren't always this good, as Mayor Caldwell noted, "We are looking pretty good now, but if George was

forced to close 15 years ago, we would have been in deep trouble. Back then, we were heavily dependent on George." [Ref.23]

TABLE 8: GROWTH PROJECTIONS VICTOR VALLEY

TYPE	1986/87	2010	ANNUAL GROWTH	% ANNUAL GROWTH
Population	100,850	215,720	8,988	4.0%
Housing	50,541	131,542	3,375	6.7%
Commercial Retail (Building Sqr. Ft)	5,728,400	12,292,400	273,500	4.8%
Industrial (Building Sqr. Ft)	4,445,753	13,855,653	392,079	8.8%
Office (Building Sqr. Ft)	1,445,975	5,821,900	182,330	12.6%

Table by William C. Lawrence Company, Inc. 1987/88

Jobs. The effects on local jobs are harder to estimate. The closure will obviously affect the primary 600 civilian employees who work at George, causing them to move or accept a choice of compensation packages. The employment multiplier effects on the secondary job market require extensive analysis. Although each base contributes differently in terms of significance, the effects which they have on their respective local communities are similar. In particular, funds spent on construction at military installations are, by law, distributed to the lowest bidder, and to civilian contractors, many of whom are local residents. The same may be said for the local utility companies supplying the bases with power, gas and water. In assessing socio-economic effects, it was essential to evaluate the weight of these expenditures. If the base significantly contributed to the overall economic health of the community it

follows that the closure of the base would dramatically influence the economic stability of the community. It is necessary to determine the effect the base has on the local community. The United States Air Force uses a standardized methodology for determining economic contributions to the local communities and has each Air Force Base Commander publish an annual report by its comptroller's office.

This report is called the Economic Resource Impact Statement (ERIS) and is published at the end of each fiscal year. It provides unclassified key information to public officials and visitors about the mission, resources, and economic impact of the base to the surrounding communities. The 1989 ERIS for George AFB estimated that George Air Force Base's annual operating expenditures contributed \$460,300,666 to the local communities. Additionally, the report stated that nearly 3,600 secondary jobs were created in the local community to serve base needs. The methodology used to arrive at these numbers is contained in Appendix C.

School District. One of the most severe effects on the local communities could occur in the City of Adelanto School System. Adelanto owns two school buildings located on George AFB (the land the schools sit on is leased). One-third of the school system's students are military dependents. An externality of the George closure is that the state and federal government funding for these school children will be taken away in proportion to the number of

students lost with the closing of the base.¹ The district has petitioned the State and Federal government for allowances which would permit the funds now received, based on current child population, to be reduced over a period of time (e.g. over three years through 1995) rather than abruptly. This would lessen the immediate effect of the base closure and enable the school district to compensate for the loss of military dependent students by enrolling new students which move into the area. This would reduce further layoffs² and will allow the school system enough time to possibly regain the students which it lost with the closure of the George AFB. [Ref. 32]

Retired Military. Closing George AFB will have a direct financial impact to eligible recipients of military health care, particularly military retirees and their dependents. The hospital's

¹Federal and State aid to the school district is in the negotiation phase at the time of this report.

²Further effects ripple throughout the school district. With such a significant loss of student population, the number of teachers employed by the district must decrease to remain proportional to the number of students enrolled. With a decrease by one-third of the student population, a significant number of teachers must be terminated. Due to seniority, the majority of the teachers that will be terminated are the lower paying, less experienced and newly hired. After asking for voluntary retirements and resignations from the more senior and higher paying career educators, the majority of the remaining teaching staff will be high paid career professionals. This mix of teachers will ultimately increase the dollar per student ratio required for the district. Thus, the amount of money initially budgeted will not be enough to cover the cost of the newly prescribed number of students following the closure of the base. This situation is further aggravated if funding from the Federal government is allowed to be terminated suddenly and not on a three year schedule as proposed.

closure will reduce the availability of military health services to the approximately 12,400 retirees and their dependents living near George. Additionally, supplemental services presently available to eligible persons living in the vicinities of Barstow Marine Base, Ft. Irwin, Edwards AFB, China Lake, and Norton AFB would be reduced, potentially affecting health care at other base communities.

The George AFB Hospital has over 10,000 active records for military retirees and their dependents. [Ref. 21] Patients who previously used George AFB will be required to either travel longer distances for treatment at a military facility (e.g. March AFB Hospital, 60 miles away) or receive services in community hospitals under the CHAMPUS program (military medical insurance)¹. For patients who choose CHAMPUS, the average patient will incur additional expenses of nearly \$600 per year for in-patient services and \$275 per year for out-patient services. Additionally, patients will incur additional costs for prescription drugs and some medical tests. Many military retirees chose to move to the Victor Valley because these facilities and benefits existed, and therefore the removal of them makes them true economic losers as defined earlier. Thus, the closure of George

¹The Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) provides payment for health services rendered in civilian facilities. Under the standard CHAMPUS program, the patient is responsible for 25 percent of the total bill or a fixed daily amount of \$210 (note: these costs are due to go up January 1991). Under the Prime CHAMPUS program, participating health care providers charge patients a nominal fee for services. Victor Valley Hospital is a participating provider; St. Mary's Desert Hospital is not.

AFB will result in an adverse impact on cost and convenience of health care for military retirees and dependents who now depend on this hospital¹.

Though the retirees mostly lose, the communities mostly win. The communities will now benefit from the additional revenues and business these retirees will be forced to spend in town. The only way in which the communities can lose from this situation is if capacities are reached due to the additional demand, and overall services decline for everyone (e.g. the hospital becomes overcrowded). Additionally, the communities could lose if a significant number of the retirees choose to move (though the overall population growth in the Victor Valley should easily compensate for this effect).

Community Relations. Community atmosphere and relations with a major military base are a socio-economic effect that cannot be overlooked. The existence of a major military base in a community has a unique positive impact on a community's personality. George AFB has always had a widely held reputation for outstanding community relations. [Ref. 33] A key example of the good relationship that prevails between the military and civilian community is the Victor Valley "Airman of the Month" award. This award is given to an Airman from George who, judged by his

¹Adverse impacts to retirees and their dependents will also occur because of the closure of the Base commissary, exchange, and the elimination of base recreational services.

superiors, is the top military performer of the base. He/she is awarded special recognition from the Air Force, but more significantly, is given a banquet in his/her honor sponsored by local businesses, and a comprehensive gift package consisting of prizes, gift certificates and money — totaling over \$2500. Clearly, such actions by local business demonstrates strong favorable public support for George AFB.

Summary of Socio-Economic Effects. In summary, nearly 20,000 individuals (job holders in primary or secondary markets, retirees, and others more difficult to identify) will suffer negative socio-economic effects from the George Air Force Base closure. However, the communities of the Victor Valley stand to gain from the base closure. In the end, whether anyone remains a loser is dependent on whether they are properly identified and directly compensated (for example through assistance from the OEA), or if not identified, indirectly compensated by the winners of base closure, which clearly stand to be the majority. Of course the degree to which the winners win, directly hinges on the redevelopment and the reuse of the base.

8. The George Air Force Base Reuse Question

As stated earlier, The question of what to do with the land, buildings, runways, and other assets of George AFB is a topic of heated debate between Adelanto and the Victor Valley Economic Development Agency. Each want entirely different uses for George

AFB. Encircling the argument are significant influences from the Southern California region.

Without major expansion and improvement projects, Los Angeles, Ontario, Burbank, John Wayne and Long Beach Airports will be able to serve a combined total of about 63 million passengers annually by the year 2000. However, by then the public demand for airplane seats at those five airports will have surged to 93 million, leaving 30 million would-be travelers essentially stranded. [Ref. 29] Physical constraints and the threat of lawsuits make any expansion of these airports unlikely. Instead, politicians are looking for solutions elsewhere. For the past several years, it appeared growth would take place in Palmdale (60 miles from Los Angeles and 35 miles from George). Palmdale has a small regional airport with plenty of capacity (and desire by the local community) for growth. However, the closure of George presents an even better opportunity to politicians for two primary reasons: (1) a recently approved high-speed train, and (2) the persistence of Mayor Ed Dondelinger.

The California-Nevada Super Train. A California-Nevada super speed train has recently been approved by the two states and is planned to be in operation by 1998. The train will travel between Anaheim and Las Vegas at speeds up to 300 miles per hour on a wave of magnetic energy. The 270 mile trip would take 90 minutes and cost only 2/3 what the current equivalent air fare costs. The trip time from Anaheim to Adelanto is estimated at only 25 minutes. Links are planned to Burbank and Ontario, and the

train will pass through the heart of the Victor Valley. Developers estimate the existence of the train will create 25,000 jobs and add \$600 million in new earnings to each state's economy. Mayor Dondelinger is a major proponent and "banking" on the new train's future.

Adelanto and the "Super-port". "People think we're crazy and wonder why we'd want to live with airport noise," stated Mayor Dondelinger. "We'll, we've been living with noise (from military jets) for 48 years, so it's time we got some payoff from it." [Ref. 29] Because of the air traffic economics in the Los Angeles basin, Mayor Dondelinger and Adelanto are winning significant support for the vision of an international airport. The Orange County Board of Supervisors voted in July 1990 to scrap two proposed airport sites in their county and throw their weight behind the idea of the desert super-port. To date, Adelanto had spent over \$1 million on its super-port plan. Dondelinger stated, "We're dead serious about this thing and will pay any price for George." The members of VVEDA are not so excited about the idea.

"I frankly don't think all the air congestion problems in Southern California should be visited on the Victor Valley," Victorville Mayor Terry Caldwell said. San Bernadino County Supervisor Martha Turoci, VVEDA's chairwoman agreed, noting that "we have to remember that Orange County and everybody else is supporting this super-port because it's something they don't want in their communities." Mayor Dondelinger told the Los Angeles Times

that such skeptics suffer from myopia and vowed to mire redevelopment of the base in lawsuits if Adelanto does not get its way. As stated earlier, he currently is playing peacemaker, but final reconciliation and agreement is still far off. [Ref. 29]

The effect of all of this is important in determining the socio-economic costs imposed to the communities (winners and losers) as the redevelopment delays persist. Clearly, the most significant factor from studies of historical base closures showed that smoothly coordinated, rapid redevelopment was the key to limiting negative socio-economic effects from closure — and in fact providing substantial gains from closure to local communities. Conflict severely limits what the OEA can do to assist the communities. The OEA is not empowered to take sides in situations such as that of the George closure. Though the Adelanto-VVEDA problem will be resolved, the effects of these delays will limit early gains from reuse and redevelopment and increase the severity of the losses for most of the losers from the closure action.

In principle, the High Desert Airport would accept passengers desiring transportation to the Los Angeles area, then transport them via the high speed commuter train to points further to the West. In addition to attracting business associated with the airport, Adelanto officials hope to induce large manufacturing firms to the High Desert area due to its convenience, open space, low cost land, and accessible transportation. Adelanto has thus far induced businesses to the area which are not otherwise attractive to other communities (oil burning

power plant, cement plant, industrial park) through tax incentives, and in the case of the power plant, allowing a greater air particulate discharge from their smoke stacks than is acceptable in other areas of California. Although the Adelanto City reuse plan is an aggressive one, it seems doomed to failure because the small city does not have the necessary tax revenue base required to undertake such an aggressive plan.

B. MOFFETT FIELD NAVAL AIR STATION

To contrast specific socio-economic effects of the George Air Force Base closure, we chose a military base for study that at first glance could be closed without much of any apparent effect on the communities. Naval Air Station Moffett Field, California, is located in the Santa Clara County in the heart of what is commonly known as the "Silicon Valley" (see Figure 4). Over the years, the local communities have slowly encroached on Moffett and now demand airfield operations restricted to reduce noise factors. The overwhelming populace rely very little on the economic payroll and operations that Moffett provides. Moffett Field was selected by the President for possible closure in his FY1991 defense budget, and has received closure attention in the past as well.

NAS Moffett Field and Local Communities

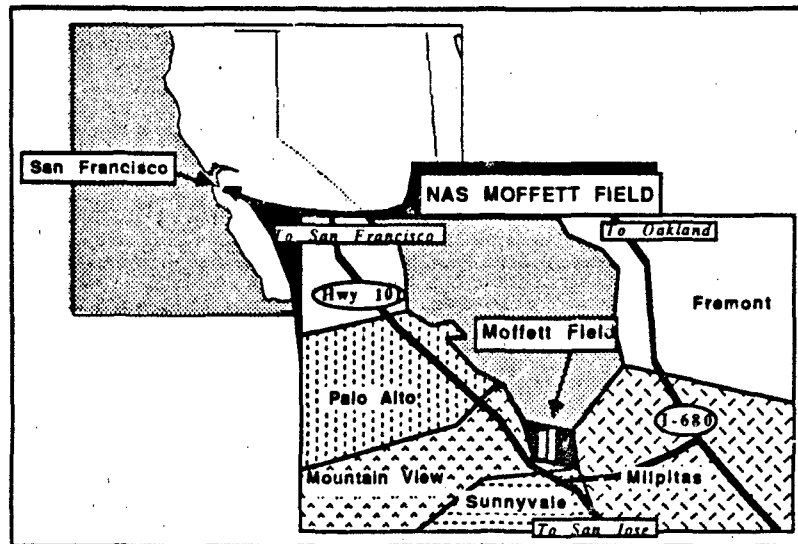


Figure 4

1. History of N.A.S. Moffett Field

Moffett Field was originally established to house the large lighter-than-air ships of the post World War I era. The airship's size dictated a particular type of hangar arrangement and in 1933 property was acquired from the city of Sunnyvale California to meet these needs. The government purchased a total of 1000 acres of farm land for the approximate cost of \$475,000 and in 1933 this property was deeded to the United States Navy for what is now known as the Moffett Field Naval Air Station. [Ref. 34]

Lighter-than-air or blimp operations were terminated in 1947, following the end of World War II. Moffett then transitioned to fixed wing operations. The first operations at the base after the transition were transport aircraft squadrons. Following the outbreak of the Korean war, fighter squadrons were moved to Moffett Field.

Later, several of these fighter squadrons were transferred to Lemoore NAS in a consolidation process. Since then, the base has been entirely devoted to the role of anti-submarine maritime patrol, first with the P-2 Neptune aircraft, and now with the state-of-the-art P-3 Orion aircraft. Moffett Field is the home for the Pacific Fleet Headquarters for all West Coast long range land based antisubmarine warfare operations.

2. N.A.S. Moffett Field Capital Assets

Two parallel runways which run north and south across the mid section of the base split operation, maintenance, supply and support functions between the various tenant commands on the station. One of the largest users of the runway facilities is the NASA/Ames Research Facility, which is largest non-DoD stakeholder at the base. Their research includes flights of various size and configurations of aircraft which require the 10,000 ft runways available at Moffett. Current base population is approximately 4,800 military and 1,600 civilian personnel. [Ref. 34]

3. Initial Community Reaction to the Moffett Field Closure

The initial community reaction to the proposed closure announcement affecting Moffett Field was mixed, but mostly sided with the proponents of closure. This was in contrast with the reaction to the announced closure of George AFB. This was predictable, as the land used by Moffett has many alternate uses

which local communities could find much more beneficial to their tax base, job, and housing markets.

The local district representative, Congressman Tom Campbell was quoted as saying, "I will support whatever is best for the Department of Defense — if it can be shown, and if they believe, that closing Moffett is beneficial, then I will support base closure." [Ref. 35] The San Jose Mercury News newspaper ran several editorials in January and February 1990 that supported the Moffett closure. The only major voice in opposition was local retirees and the Mayor of Mountain View, who is retired Navy himself. Only a handful of people voiced opposition at a public hearing held in September 1990 for the purpose of expressing opinions about the draft Environmental Impact Statement. Clearly the initial reaction to the proposed Moffett Field closure was different than that to the announced George closure.

4. N.A.S. Moffett Field Socio-Economic Effects

The closure of Moffett Field would involve the loss of approximately 4,800 military, 800 reserve and over 1,600 civilian personnel. The NASA Ames Research Center and the California Air National Guard are both located at Moffett. Both require the use of the runways, and would need to re-evaluate their positions.

The socio-economic impact of the Moffett base closure would affect the local communities in the same way closing George is affecting the Victor Valley communities — but not to the same extent. The most direct economic losers of the Moffett base closure are the

civilian workers at the base and the retirees who moved to the immediate area for their retirement benefits. There would be an impact in the secondary job market as well (through a multiplier effect), but this effect would be less than that observed in the Victor Valley communities and would be much more easily absorbed by the vast and varied economy of the Silicon Valley. [Ref. 34]

Politically, the closure of Moffett Field would not bring about contentious arguments between the communities to the same degrees as the closure at George. Though the runways at Moffett present a major asset, expansion to a regional airport is not needed nor desired due to an already crowded airspace in the bay area and an extensive airport asset nearby (San Jose International Airport). Most development plans call for reuse to center around industrial park designs and high density housing. The only unknown would be the disposition of NASA/Ames, the Air Force Station, and whether the runways could actually be removed. According to a draft Environmental Impact Statement (EIS) prepared by the Navy's Western Division of the Naval Engineering Command, the closure of Moffett Field would reduce primary and secondary jobs in the Santa Clara County by less than one percent [Ref. 34].

5. Summary

The George Air Force closure case study illustrates many of the common base closure elements that were disclosed in earlier studies by the Economic Adjustment Committee and other private individuals. The proposed Moffett Field base closure offers a

contrast to George's, and shows that in the 1990s, not every community cherishes the relationship it has with a military base in the way communities did in the 1960's. Moreover, the two cases presented demonstrate the individuality of each base closure process. A more specific analysis of the the two closures is presented in the next chapter.

V. CASE STUDY ANALYSIS

The George Air Force Base case study provides an excellent opportunity to study the economic and political relationships that exist in the base closure process in the 1990s. The study additionally allows us to assess transition and reuse procedures, and how this process can effect the socio-economics of the local communities. From this research, we can better define military base closure winners, and losers, describe true socio-economic effects, and assess the policy decisions which effect closure transition.

The hypothesis at the outset of the George AFB case study was that the Victor Valley communities and George AFB had a highly interdependent socio-economic relationship, and therefore, the George closure would have a major negative economic impact on those local communities. If this assumption were true, the case would provide an ideal study of a "worst case" scenario, highlighting the problems of base closure and resource allocation in the public sector. Though the case did provide for a good analysis of socio-economic consequences, it did not lead to the negative conclusions we originally anticipated. This supports the conclusions of the Economic Adjustment Council in their 25 years of base closure report and other private individuals that point to positive socio-economic returns from base closure within 5 years of closure [Ref. 20].

A. ANALYSIS OF THE SOCIO-ECONOMIC EFFECTS OF THE GEORGE AFB CLOSURE

Despite the initial projections by local civic leaders and media, the Victor Valley communities stand to lose very little from base closure, and in fact should greatly benefit. Still, there are true economic losers in the process.

1. Winners and Losers in the George AFB Closure

The true economic losers of the George AFB closure can be defined as those businessmen, homeowners, retirees, and service industries who specifically moved to the Victor Valley after George AFB had opened, and rely on George for benefits. For most, the losses will be temporary in nature. As the land is shifted to alternate uses, these individuals will actually experience significant economic gains (this easily explains the large numbers of speculative investors that have combed the area since the closure announcement [Ref. 29]). For those not included as true losers, any losses suffered represent an equalization of the gains received when the base was first opened. The most revealing aspect of the case study in this area was that true losers stand to lose very little due to the rapidly improving regional economic factors influencing the Victor Valley in 1990. For example, due to the positive annual growth rate in the area, real estate brokers located immediately off the base have experienced minimal negative effects from the closure announcement and process.

Though we can define the economic losers, we can not easily identify them. But some groups do stand out. The most distinctive

losers are those military retirees who moved to the Victor Valley explicitly for the benefits the Air Force Base provided them. As shown, losing the base will mean financial losses and contribute to significant "inconveniences" for these military retirees. For example, with the loss of the military hospital on the base, the retirees will be required to go to other more distant military installations for health care, or be forced to seek care on an already crowded public health market. Other losers from the closure of George do not stand out. For instance, those who lose because the community hospitals will now be beyond capacity due to the addition of the military retired and their dependents are difficult to identify.

2. Effects on Community

Each local community will feel the socio-economic effects of the closure differently. Originally it was thought each of the communities would suffer economically from the closure. However, due in large part to the steady population growth in the Mojave High Desert area, the socio-economic effects of the George AFB closure seem to be negligible. For example, overall housing prices have not decreased, and there has not been a decline in business or business payroll. The only real loss Victorville will experience is the positive and productive relationship with the Air Force and its personnel, as exhibited by the George "Airman of the Month" program. This loss of community spirit and pride is tangible, but also negligible. The losses for Adelanto, however, are more significant and will be explained in more detail.

As measured by the potential for winning, Adelanto could be the biggest loser in the George AFB closure. Adelanto relied heavily on George to boost its weak economic resource base. The loss of George severely hurts Adelanto's lower income rental occupancy rate and school system tax base. Should the High Desert International Airport plan be accepted, Adelanto could stand to substantially gain far more than the existence of George would have contributed.

However, Adelanto is only a true economic loser from the closure of George if its residents and small businesses came to Adelanto specifically because George existed. Our evidence showed otherwise. The chief attractions to Adelanto were lower property prices for housing and less stringent environmental standards for business.

B. THE OBSERVED POLITICAL PROCESS

The initial negative reaction to the George AFB closure announcement signalled the beginning of complex political maneuvering and staging. The reaction to the announced closure reinforces the political axioms that politicians should be pro-active, and one job held is better than two potential jobs. Constituent letters to Congressman Lewis showed little regard for economics and efficiency, and instead, concentrated on whether or not the congressman would defend his voting public. If federal jobs on the base were lost, Congressman Lewis would no longer be in control of the effects this payroll had on the local economy. He would lose some of his political influence — and some of his power. Locally, the

civic leaders, when given the chance to improve the local economy by privatizing the base, preferred to keep the status quo, (base open with constant employment and economic relationships). Mayors and city council members made calls, wrote specific point papers, and traveled to Washington to defend the base's existence. They too believed that they must be perceived as defending the current economic climate.

1. Political Compensation

The negative response to the closure announcement by Congressman Lewis and the local civic leaders, though sincere, helped to politically develop the stakeholders of the closure. By responding negatively, the civic leadership increased the perceived number of potential losers from the George closure. This in turn increased the potential requirement for community compensation and consideration in base closure actions from the federal government. One such form of compensation they received was a liberal closing schedule. The decision was made that George AFB would not be closed for four years after the announcement, giving the communities ample time to coordinate their efforts and resolve their differences as to the proper reuse of the assets associated with the base. Though this presumably delayed the economic benefits of closure for the federal government, it significantly assisted the municipalities in establishing redevelopment plans.

Another political decision to influence a positive outlook to base closure was a government sponsored trip of community leaders

visiting communities around the country which had previously been through the closure process. The tour demonstrated that even isolated communities such as those in the Victor Valley could prosper from the closure of the large military base. This tour was in response to the large initial negative reaction to the closure, and effectively changed public sentiment and better prepared the communities for the closure process.¹ It should be noted that this type of tour has not been suggested for Moffett Field, in large part because the initial announcement of the proposed closure did not evoke such a large negative reaction.

2. The Power Game Exhibited at George

As the community with the most to gain, and therefore the most to lose, Adelanto has fought for control of base redevelopment with the Victor Valley Economic Development Agency. In this fight, all the communities share the same "political turf". For Victor Valley to succeed all the organizations must work together towards a common goal. Mayor Dondelinger immediately recognized this and drew his political power from his foresight that cooperation was an eventual necessity. Though all the local communities shared the necessity for cooperation, they did not share the same goals, values,

¹In discussions with local civic leaders, this tour sponsored by the Air Force did more than any other aspect of the Air Force's attempts to relieve the fears of the local community as to the negative factors of base closure. After this tour of previous military installations was completed, the leaders interviewed all said the question of whether the base should close or not was no longer an issue, rather the discussion turned to, what can the base do for us after it closes and how fast can we institute the change.

or vulnerabilities. Mayor Dondelinger successfully raised Adelanto's redevelopment agenda by obstinately refusing to negotiate any option other than the "Super-port" concept. By using legal and formal procedures to his advantage (much like they were intended when written for the Loring AFB closure in 1976), he threatened environmental litigation to halt or permanently delay the reuse of the base. Though the negotiations are continuing at this time, it appears Mayor Dondelinger's plan for a larger airport has received increased consideration as the other communities recognize their ultimate success is dependent on cooperation.

In summary, the political processes observed in the George Air Force base closure may delay the closure process (and hence increase inefficiencies in resource allocation). However, this procrastination may ensure stakeholder's agendas are heard, and give losers the opportunity to be compensated. Current law and procedures regarding the closure and disposition of military bases encourage civic leaders to act as seen in the Victor Valley area. Sometimes this encouragement is beneficial to the process; however, without help, communities remain ill equipped to resolve disputes and coordinate redevelopment.

C. ANALYSIS OF THE GEORGE AFB REDEVELOPMENT PROCESS

Local community leadership is not equipped to handle the large immediate problems of promoting redevelopment and restoring the economic relationships once a military base is closed. This in part explains the desire to avoid closure even though the potential gains

are evident. Additionally, the gap in time since the last set of base closures has eliminated any corporate knowledge for base closure procedures and redevelopment pitfalls. For this reason, the Victor Valley communities have relied extensively on the guidance and services of the Office of Economic Adjustment.

The OEA has been the cornerstone to the closure process for George AFB. The OEA provided the blueprint which later became the Victor Valley Economic Development Agency. Through the assistance of the OEA, VVEDA was organized with the County of San Bernadino and received a \$95,000 grant to perform development work. The OEA not only has funds available for essential studies and formal reuse proposals, their leadership, direction, and contact with the primary governmental departments and agencies, facilitates the timely turnover of assets at George to the communities.

The OEA is limited when political entities break off from one another and create opposing agendas for base reuse. However, as project officer Ken Matzkin has done with Adelanto and VVEDA, the OEA continues to emphasize that everyone loses if the base redevelopment does not occur rapidly and in a coordinated manner (as shown in the Utility Possibilities Figure in Chapter III). This influence has been critical to the redevelopment efforts at George and led to the initial reconciliation meeting held in San Bernadino in November.

The OEA is not capable of handling all of the problems that occurred with the George closure. For example, when the

announcement of the base closure was formally published, the most talented and experienced of the general service government employees working at the military base left base employment as soon as possible. Anticipating the outflow of civil servants from the closing base to other nearby facilities, these seasoned veterans realized the need to "get out early". This greatly detracted from the base's ability to perform an orderly closure.

Additionally, it is apparent in the two case studies that the military retirees and their benefits are not considered in the closure decision. Although health care is not a legal obligation by the government of the United States to military retirees, the contract is strongly implied as an obligation at the time of enlistment or commission in the Armed Services. To not consider these individuals in the closure process is a mistake, possibly leading to far reaching consequences in the future.¹ In cases involving individuals who specifically moved to the Victorville area to preserve their retirement benefits, these individuals will lose more than other non-military retirees in the area. Neither the OEA nor the local communities worked to identify these stakeholders, nor attempted to

¹It is believed that such treatment of the military retiree may adversely influence the decision of military personnel who are undecided as to whether to make the military a career or not. Seeing this type of policy change toward implied obligations on the part of the government, military personnel may well opt to leave the service rather than take the chance that his/her retirement benefits will be reduced.

ensure they would be compensated in way. This example can be extended to other economic loser groups as well.

D. CASE ANALYSIS SUMMARY

The case studies illustrate the common elements of base closure now and base closure during the past 30 years. Historical studies showed that base closure offered communities much more than it took away, even in situations where the communities were isolated and seemingly economically dependent on the local base. Our study of George Air Force Base, a base which is somewhat isolated, shows the historical studies to be relevant. With the proper guidance and community leadership, a base closure is most often converted into a positive community windfall. When losers are compensated either directly or from the winners, reuse of military bases brings about financial rewards and positive socio-economic influences for all those involved.

The Victor Valley communities stand to gain much more than they will lose due to the George Air Force base closure. Regardless which of the major reuse proposals is accepted, the area stands to substantially gain economically more than they had with the George AFB in operation. The direction and management of George redevelopment must be aggressive, coordinated, and must successfully attract new industry in order to maximize these gains. These decisions are left to the politicians and will directly affect the magnitude of economic gains the communities realize.

VI. THESIS CONCLUSIONS AND RECOMMENDATIONS

The base closure issue is one that will remain alive as long as there is a need for a military in the United States. The issue has continually been revisited in the 20th Century with history providing the interested party with a picture that is painted in confusion and non-logical conclusions as to whether or not a military installation should be closed. In today's austere budget environment it is anticipated that the end of the Cold War will revitalize the discussions concerning the requirements for additional base closures.

The present base closure process is not prepared to adequately allocate government property for private redevelopment. Our research found many positive and negative aspects of the base closure process. There are several inefficiencies and incomplete economic processes that serve to delay closures and therefore delay the potential benefits to communities. Many of the axioms presented in the historical studies are applicable today. Beyond an affirmation of those axioms, we observed the following problems, and offer recommendations for improvement of the base closure process:

1. **Observation:** Our study, in agreement with historical assessments, concluded that major negative socio-economic impacts on communities when the local military base closes are negligible. This appears to be true even in worst case scenarios where local communities are somewhat isolated and economically dependent on the base. Yet, initial community reactions to base closure continue to

be negative. These reactions seem to be an outgrowth of viewpoints held by federal and local political factions attempting to exert influence and broaden their power base. Our research shows this reaction to be unfounded.

Recommendation: Increased awareness of those parties concerned with the conditions affecting the base closure process and a better understanding of economic and political relationships in public policy making are essential. Figure (5) shows these relationships for the base closure situation. This figure shows the environment surrounding the base closure process — in a large way affecting the decision to close or leave a base open. But the economic efficiency of base closure is manipulated by the ring of political influence encircling it.

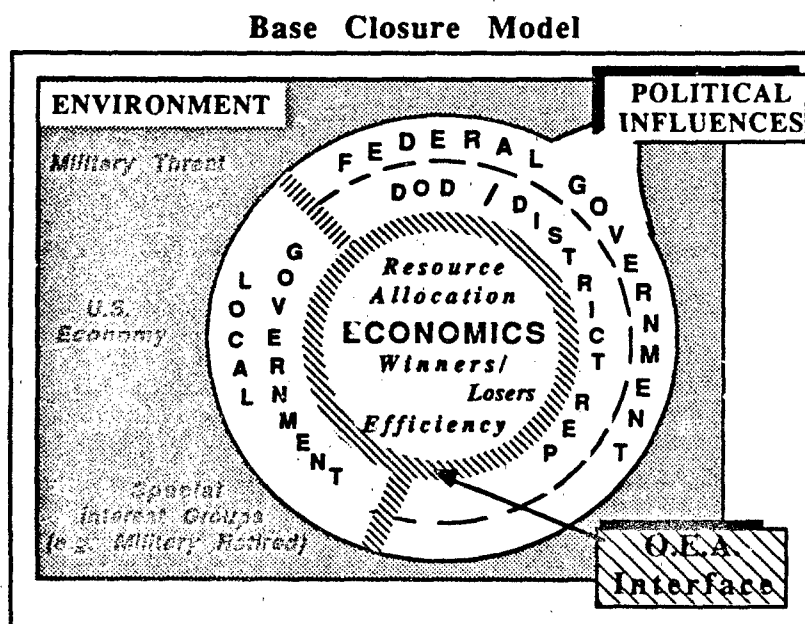


Figure 5

A DoD decision to close a base to improve government efficiency is dependent on the political processes that control the details of the decision. Too often political influence squeezes the economic efficiencies, causing excessive delays and increased costs. However, if local citizenry and civic leaders realize and understand this process, they can help limit these delays and work toward beneficial redevelopment. Our study concludes that base closure can lead to positive socio-economic benefits — local political leaders should grasp that concept for the benefit of their constituencies.

2. Observation: The base closure process is contentious and too lengthy. This leads to resource allocation inefficiencies and delays economic return to the federal government and ultimately to the individual citizen. The political process which takes place at the federal and local levels delays even the simplest closure by several years. Public law and vague procedures promote infighting between civic leaders.

Recommendation: Once a decision to close a base is made, it should be implemented as quickly as the community can be prepared to reuse it. OEA project officer Ken Matzkin agrees, "Delays are not good news. When a base's fate hangs in limbo, and redevelopment is needlessly postponed, it hurts the surrounding communities. Bankers become skittish. Developers shy away. Though recovery is inevitable, it is delayed." [Ref. 35] The OEA and the DoD need to assist and Congress should not hinder an economically sound closure. Michael Closson, the director of the

Center for Economic Conversion in Mountain View, California, adds that the key to successfully converting a military base is careful planning and proper utilization of time. "Communities waste valuable time, sometimes years, and instead of fighting closure, should plan for it."

3. Observation: All possible alternate uses for base reuse are not considered, and some stakeholders are not identified or heard in the base closure process. There is a definite bias in redevelopment toward simplistic reuse plans that lean toward obvious assets — such as runways. We found no evidence that other options, other than differing sized airports associated with industrial parks, were considered for George.

Recommendation (1): Make the public more aware of the process and the avenues to be heard. The Environmental Impact Statement process is specific and allows for ample input from stakeholders and for reuse options. However, we experienced very little turnout or preparation for the public hearings that were held in support of the process. Local civic leaders must advertise the existence of the process better. The value of the land the base is now on could be utilized for different purposes. The report, "25 Years of Civilian Reuse," states numerous other uses can be found for the assets contained on a typical military base. These alternate uses are more or less valuable to individual citizens. For example, the most valuable alternate use of the property on which the base is located may be to make a golf course for some of the stakeholders. To

others, more valued uses may be to provide homes for the elderly or homeless, or use base assets as penal institutions. All of these alternative uses must be considered as viable alternatives. Our study indicates that there is a breakdown in this portion of the decision making process, and all the alternatives may not be considered for possible reuse issues.

The reuse question is slanted primarily towards privatization of the property in question, and the increase in the possible tax base of the property for local communities. In cases where the base contains an airfield of any substantial size, the decision is almost predestined to include the use of this resource in redevelopment plans. The only question that remains in these cases, as it does in the Victor Valley case, is how large should the airport be, and who should have the control of the redevelopment.

For example, many of the communities of the OEA study built community related facilities at the closed bases. Colleges were established, low cost housing took the place of military barracks and on-base housing, and at bases which were associated with an airfield, regional and possibly larger civilian airports were established. In the case of the airports, many other associated businesses were established near the air centers, thus improving the over-all efficiency of the area. Tax bases in the area increased and the local economy improved after a brief period of readjustment, (approximately 5 years). These are just examples of alternatives that we observed were rarely addressed.

Additionally, we concur with recommendations by the President's Economic Adjustment Committee to:

- Utilize the military phasedown period to secure interim-use tenants whose operations are consistent with long-term plans.
- Postpone all but essential capital improvements during the early years of operation.
- Identify improvements eligible for federal grants or finance the improvements with revenue bonds, using the rental revenues from the civilian tenants for debt service on the bonds.
- Salvage unneeded, obsolescent structures with the net proceeds used to finance capital improvements.

Recommendation (2): Politically biased groups for redevelopment like VVEDA, and politically dependent organizations like the OEA, are not sufficient to help communities assess alternate uses for base redevelopment which would lead to more efficient resource allocation. A specialized team of economic and political experts is recommended to specifically guide communities through base redevelopment. This team should be nonpartisan and would use the OEA as a resource and assist in the privatization of the land and its resources. It would begin to develop and then draw on a base closure data base that could be used as a generic blueprint for closure. This team could also provide compensation alternatives or substitute employees for the civilian general service employees that, we observed, leave base employment soon after the announcement of the base closure is made public. By having the knowledge and experience of previous base closures available, this team would be a

valuable resource for the inevitable base closures in the 1990's. This team could develop a plan that would:

- Understand the local community and stakeholders
- Build on local strengths
- Help create a realistic vision for the future

Recommendation (3): We recommended the three military services unite to develop a base closure process that would include common policies and procedures for working with local civic leaders. This may include jointly sponsored tours for civic leaders and would significantly contribute to the corporate data base which would assist future closures.

During the research of this paper, it was necessary to call and speak with the military officers who were working on the base closure problem. Though extremely cooperative, they seemed to be so overwhelmed that it would be difficult to focus on the most efficient route in closing a base. It was clear from these discussions they needed more staff to work on these complex issues. It was apparent these offices designated to study base closure did not have clear goals or delineated duties. It was also clear that representatives of the Navy knew some elements of closure, representatives of the Army knew others, and representatives of the Air Force knew still others. The closure process could benefit from the collective knowledge of all the services.

Conclusion

The announcement of a base closure sends rippling waves of panic, fear, jubilation, and confusion through the hearts and minds of nearby residents. The Department of Defense of the 1990's will be a different organization than the DoD of the past fifteen years. The military build up of the Reagan presidency is now a memory of the Cold War. From this new DoD will emerge a leaner military establishment with smaller services requiring fewer bases and installations. The federal government will have little choice but to close and realign these installations in the hopes of cutting the defense budget, thus decreasing the overwhelming budget deficit. In short, base closure is something that will become more prolific in the 1990's. From these case studies, it is apparent too many mistakes have been made in recent closures. Decisions concerning the closures have been made as a result of "knee jerk" reaction to political decisions. The Department of Defense, as well as the governing bodies of the nation, must look for ways to make this process an orderly transition. They must help the local residents in easing their fear of economic disaster, as well as assist the communities in developing viable, long term alternative uses for bases destined for closure.

Public organizations are ultimately subservient to political objectives, and as such, must delegate a large degree of efficiency responsibilities to those democratic processes of the people. Here, as in many other policy decisions, efficiency is subsumed by politics.

The military base closure problem must be smoothed to allow the efficiencies to be greater and the political influences to be smaller with the increased awareness and understanding of the process by stakeholders. This awareness will help prevent statements such as the one by Mountain View Mayor Angelo Frosolone when told the Moffett Field base closure would remain in indefinite limbo -

"So that list is kaput, huh? Hey, that's good news! Hey, you made my day!." [Ref. 35]

APPENDIX A

THE PRESIDENT'S ECONOMIC ADJUSTMENT COMMITTEE

Department of Defense*

- includes the Office of Economic Adjustment (acting staff of the EAC)

Department of Agriculture

Department of Commerce

Department of Education*

Department of Energy

Department of Health and Human Services

Department of Housing and Urban Development*

Department of the Interior

Department of Justice

Department of Labor

Department of Transportation

Council of Economic Advisors

Office of Management & Budget

Arms Control & Disarmament Agency

Environmental Protection Agency*

General Services Administration*

Small Business Administration*

Office of Personnel Management*

*key EAC departments for assistance in military base closure.

APPENDIX B

ECONOMIC ADJUSTMENT PROCESS

AND THE

OFFICE OF ECONOMIC ADJUSTMENT

The Economic Adjustment Program was established in 1961 to "support national security objectives by helping communities resolve problems caused by significant Defense program policy changes." [Ref. 1] These include military base closures and realignments, new military bases/expansions, defense contract reductions and community-base issues like encroachment. The program is implemented by the Office of Economic Adjustment (OEA) in cooperation with the military departments. Since 1970, assistance has been provided by the President's Economic Adjustment Committee (EAC), an inter-agency committee of 18 federal departments and agencies which is chaired by the Secretary of Defense. The OEA is the permanent staff of the EAC.

To restore community stability after a base has been selected for closure, the program:

- Helps communities help themselves through appropriate local and intergovernmental organizations which plan, coordinate and implement adjustment efforts.
- Tailors assistance to local needs and capabilities.
- Joins available federal, state and local government resources with those of the private sector to achieve adjustment goals.
- Seeks to replace lost jobs.

- Converts surplus base facilities to civilian job producing uses like airports, schools and industries.
- Analyzes expected tax revenues compared with public facilities and services demands.
- Addresses specific Defense-related community problems:
 - Land-use planning to avoid development encroachment that would constrain base operations.
 - Regional development issues.
 - Defense procurement outreach programs
 - Comprehensive school planning
 - Special event assistance

In the last 29 years, the economic adjustment program has helped over 400 communities more than offset 93,000 lost jobs due to major base closures. The Economic Adjustment Program conveys a broad message to communities in the field of regional economics — that economic growth is not alone an economic problem. It is as well a social problem, a political problem, an environmental problem, a psychological problem, and a leadership problem. Economic redevelopment demands an interdisciplinary approach keyed to the specific needs of the individual community or region involved. At the head of the process is the Office of Economic Adjustment.

The Office of Economic Adjustment

Though local communities could organize their own economic recovery efforts, the Office of Economic Adjustment has been necessary to assist small communities develop the basic organizational understanding and self-confidence toward economic

growth. However, the OEA approach is based on the key philosophy that it is the local community that must be the driving force behind economic recovery.

Since its founding, the OEA has remained a fairly small organization. Even at the height of major closure announcements in the mid-sixties, the office was staffed by eight professionals and three secretaries. Today the OEA has only doubled the total staff size. The budget for the OEA for FY1991 is \$3.5 million, which according to senior project officer Ken Matzkin, is very adequate to cover the current myriad of projects and responsibilities for the Office. [Ref. 28] With the current staff size and the current level of activity of base closures (all due to the 1988 base closure commission), each project officer handles roughly 5 base closure cases. For example, Mr. Matzkin's case load consists of the closures at George Air Force Base (CA), Fort Dix Army Base (NJ), Norton Air Force Base (CA), March Air Force Base (CA), and Fort Ord Army Base (CA).

Though the official policy of the OEA is to respond only to community invitations for assistance, it has been involved in virtually every domestic base closure since 1961. In addition to its advisory role to and for the affected communities, the OEA also serves as the base closure community's focal point or representative in Washington. In essence, the OEA is able to ensure that the federal government speaks with one coordinated voice to the affected local community.

Possibly the most difficult task for the OEA is its advisory role in stimulating and strengthening local community leadership to recognize and to work cooperatively toward finding viable new uses for the former base facilities. The OEA normally encourages the formation of a broadly based closure committee representative of all elements within the community. Occasionally, the formal leadership of the community is not the true leadership which can find productive uses for the bases. This is especially apparent in small isolated communities where the survival of the fittest sometimes appears to work in reverse, in that the more energetic residents leave for new opportunities. Therefore, the OEA must be continually attuned toward arresting community discord, toward discerning leadership strengths and weaknesses, and toward promoting self-confidence within the community itself.

By using the 18 departments and agencies of the EAC, the OEA has a wide range of resources available to assist in obtaining incentives, grants, and loans for community redevelopment. Historical studies have indicated that base closure projects have not required excessive grants beyond initial redevelopment studies which serve to guide communities and attract industry [Ref. 1]. In summary, the OEA has served an effective role in leading communities to rapid reuse of assets and stabilization of economies throughout the life of the Economic Adjustment Program.

APPENDIX C

GEORGE AFB E.R.I.S. AND ECONOMIC EFFECTS

The Air Force has instituted a system whereby the local commander of an Air Force base must determine the economic effects his base has on the local economy. This report, known as the Economic Resource Impact Statement (ERIS), is published annually and covers the previous fiscal year's impacts on the local community. This report provides unclassified key information to public officials and visitors about the mission, resources, and economic impact the base to the surrounding communities within a 50 nm radius.

The ERIS includes information on the host and tenant missions, base history, organizations, force structure, programs, capital assets, manpower, value of resources, payroll, local contracts, morale, welfare and recreation (MWR) activities, construction projects, and economic impact.

For the purposes of this paper and the discussion of chapter VI, the most important of these products developed by the ERIS is the economic impact information provided by the report. Of the statistics provided, the essential ones are those concerned with the payroll and spending distribution from the employees of the base, whether they are civilian or military, to the local communities. This is essential in determining the impact that a closure of the base will have on the communities, in that this income distribution will be lost and or replaced. The following table describes in detail the formulas

used by the Air Force comptrollers to determine the effects on the local communities. These factors, once established, are then sent to headquarters Tactical Air Command for verification and standardization.

The Department of the Air Force has established that each fiscal year every Air Force Base shall prepare a standardized economic report summarizing the impact the individual base has on their respective communities. Since 1983, the George Air Force Base comptroller's office has annually distributed an Economic Resource Impact Statement (ERIS) to, not only its military superiors, but the local community civilian leadership as well. The statement provides "...a complete accounting of the direct base impacts with a methodology for estimating the Total Economic Impact (TEI) of base expenditures and Secondary Jobs Created (SJC)." While not completely economically correct, the figures from the annual ERIS will be utilized by the authors for analysis rather than developing an entirely new set of data. The methodology for determining these effects is written by Headquarters SAC and is contained within the Air Force comptroller's instructions. A short explanation of the essential factors and terminology involved in the annual report follows.

The Air Force designates the area within a 50nm radius of the base as an Economic Impact Region (EIR). The focus of ERIS is within this area. The Air Force defines the impacts of Air Force base spending as both direct and indirect. Direct spending is in the form

of either contracted civilian construction, or services and initial expenditures (such as payrolls and procurement). Military and civilian payrolls originating on an Air Force base are not consumed entirely within the EIR. Instead a certain percentage of this income is lost to taxes, savings and purchases made outside the EIR. While these figures are difficult to determine accurately, the Air Force estimates that thirty to fifty percent of gross income is usually spent inside the region. The Air Force suggests that payrolls must be multiplied by this proportion before using a multiplier to calculate the impact of the base on the local economy. The local average propensity to consume (APC) then is used as the proportion of income spent within the EIR and varies for military and civilians.

The next step used by the Air Force to determine the base's impact on the local community, is to calculate the secondary jobs created (SJC) through expenditure of funds by the Air Force. The jobs created by military expenditures are calculated by estimating worker productivity applicable to two categories of worker compensation: payrolls and materials. Productivity is measured as gross sales per employee using nationally accepted averages. Sales per worker ratio values and secondary (not total) jobs created are calculated using total net economic impact, divided by productivity for the two sectors in which base expenditures and secondary trade impact fall: retail trade and services, and wholesale trade. Total economic impact of the base on the local community is therefore

determined by summing the economic impact inside and outside the EIR after corrections for APC have been taken into account.

After the local base comptroller, under the direction of the commanding officer, has prepared its estimate of the local economic impact to the community, the report is reviewed and revised by Oak Ridge National Laboratory and the URS Corporation, in an attempt to correct errors and to standardize the computing equations used by the individual bases.

Variable Name	A. Annualized Amount (\$000)	B. Adjustment Factors	C. (AxB) Local Amount (\$000)	D. ERIS Variable
Appropriation Fund (AF) Payroll			APC	
Military on-base	_____	x 0.30	_____	Y _{mon}
Military off-base	_____	x 0.50	_____	Y _{mof}
Civilian	_____	x 0.55	_____	Y _{cs}
Non-appropriated Fund (NAF) and other Civilian Payroll				
Contract Civilian	_____	x 0.55	_____	Y _{cc}
Other Civilians	_____	x 0.55	_____	Y _{co}
Subtotal Mil.&Civ Pay				
AFPAY				
Civilian NAF/BX	_____	x 0.55	_____	Y _{cx}
Estimated payroll expenditures off-base in EIR				
(Y _{mon} +Y _{mof} +Y _{cs} +Y _{cc} +Y _{co} +Y _{cx})				RPAY

Construction and Services	Labor Share	
	x APC	
Total Construction	x0.384 x 0.55	Ycon
Total Services	x0.524 x 0.55	Ys
Commissary	x 1.00	C
Education	x 1.00	E
Health	x1.00	H
TDY and TLA	x 1.00	T
Total Constr and Services		AFCONS

Total Construction and Service Expenditures off base in EIR
 $(Y_{con} + Y_s + C + E + H + T)$ _____ RCONS

Materials, Equipment, Supplies (MES)	MES Share	
Total Const.	x.600	M _C
Total Services	x0.183	M _S
Other Materials, Equipment and supplies in EIR	x1.00	AFMAT
$(M_C + M_S + AFMAT)$		RMAT

Total AF Base Expenditures
 $(AFPAY + AFCONS + AFMAT)$ _____ AFTOT

Total AF Base Expenditures in EIR
 $(RPAY + RCONS + RMAT)$ _____ RTOT

ERIS Impact Calculations Procedures:

To estimate the total economic impact within the EIR of the AF installation's annual Operation expenditures designated in \$000's of Dollars.

$$TEI_{EIR} = RTOT \times M$$

Secondary Jobs Created by base in the EIR:

$$SJC = \frac{RPAY}{PRS} \times (M-1) + \frac{RCONS}{PRS} \times M + \frac{RMAT}{PW} \times M$$

Estimated total economic impact (inside and outside the EIR) of the Air Force Installation's annual operation expenditure:

$$TEI_{ALL} = AFTOT \times MAVG$$

Estimated secondary jobs (inside and outside the EIR) created by AF base operation expenditures:

$$EJOBS = AFTOT / PDOD$$

**ENVIRONMENTAL IMPACTS OF BASE CLOSURE AS STATED
BY THE GEORGE AFB AND THE MOFFETT NAS E.I.S.**

The closure recommendation for George AFB is the result of the Defense Secretary's Commission on Base Realignment and Closures, from legislative requirements in the Base Closure and Realignment Act (public law 100-526) and from U.S. Air Force plans to enhance mission readiness and national security. Provisions of the Act require that the Department of the Air Force examine several aspects of the impending closure of the base and make recommendations as to the possible reuse of the land on which the base is standing. The EIS completed by the Air Force looked at several aspects of the closure. However, this study did not make recommendations as to the possible reuse of the base.

The following is a summary of the most important of these findings on the impact of closing the George facility and moving the assets of the tenant commands to Mountain Home AFB in Idaho.

GEOLOGY	SOILS	SURFACE WATER	GROUNDWATER & WATER CONSUMPTION
No impact	Beneficial effects because military activities that disturb soil at the base will cease	Beneficial impacts during storm runoff because the potential for surface contamination at the base will be reduced after closure	Beneficial impacts due to reduced consumption of groundwater and a reduction in the rate of water table lowering

AIR QUALITY

Air emissions from the base will be reduced to nearly zero when the closure takes place.

BIOLOGIC ENVIRONMENT

Overall improvements are expected in plant growth due to the reduction of military activity in the area.

CULTURAL RESOURCES

Beneficial impacts are expected.

MILITARY RETIREES

Adverse financial impacts are expected to eligible recipients of military health benefits and their dependents.

The Moffett base closure question prompted the Navy to contract with the Naval Engineering Division for an Environmental Impact statement on the base. This statement's findings included many areas of concern with the possible closure of the Moffett NAS, and the possible expansion of Whidbey NAS to take the migrating P-3 aircraft squadrons previously stationed at Moffett. The majority of the findings are presented here to illustrate the areas of most concern.

LAND USE	TRANS- PORTATION	HAZARDOUS MATERIALS	UTILITIES
<p>No significant impacts are anticipated. Expansion of operations along current axis of hangar row constrained by soil condition. Other land uses on-base are constrained by ordnance arcs. Some potential for in fill construction possible. Noise impacts could affect local use are possible.</p>	<p>Light to moderate impact on traffic levels and circulation associated with rural characteristics of road network on Whidbey island. Light impact expected overall, but significant impacts could be realized in localized areas already having congestion problems</p>	<p>Increased levels of generated waste not likely to significantly impact handling capacity</p>	<p>No significant impacts are anticipated with adequate supply capability in all areas</p>

NOISE

Moderate impact possible from increased use of engine test cells. Increased flight operations would result in increased noise levels and possible impacts on noise designations in the AICUZ. Such impacts, however, are dependent on timing/extent of migrating of Whidbey A/C elsewhere.

**BIOLOGICAL
RESOURCES**

No significant impacts are anticipated on habitats of existing threatened and endangered species.

**CULTURAL
RESOURCES**

No significant impacts are anticipated.

APPENDIX D

EXAMPLES OF COMMUNITY REACTION TO CLOSURE

The following two letters provide representative examples of the initial community response to the George Air Force Base closure announcement in 1988. Both are repeated in their entirety.

Capt Wilfred Cassidy
HQ TAC/DEEV
Langely AFB, VA 23665-5542

Capt Wilfred Cassidy:

I read the draft closure of George AFB. I am sure a lot of thought and investigation was put into the pamphlet, also a lot of money.

However, the point has been missed entirely. Who are the civilians that made the decisions to uproot thousands of Americans? They did not even mention a single base in their states. Why?? Why was it done undercover? Why did they say the BIGGEST reason was that they were afraid a plane from LAX would hit a plane from George. This is ridiculous. Everything is being covered up.

I have talked to numerous people in this area. NO ONE wants the base closed. Why did civilians make the decision — why did they not take a vote, why did they not have Congress do the footwork. Just whose idea was it?

As far as noise, there isn't any. I lived on the base for two years. And have lived off base for 17 years. If, which is seldom, I hear the jets, I, like everyone else feels security.

The base brings class to this area. There has always been great communication between George and the High Desert. The jets can fly 365 days a year in this area. Mountain Home, about three months. Close Mountain Home and you will save money. Don't those businessmen know that our runway was extended, we have a beautiful new hospital, just got new computers, right now they are putting new roofs on base housing. The military spends a lot of money in this area. If we lose the base, our economy will go zilch.

I work at one of the two local hospitals. We are filled to capacity with waiting lists. We NEED the George Hospital — it runs very smoothly. Also, the commissary has improved immensely. People (military and retirees from all

over) use both. The civil service people will just go to Maron and bump their people because of seniority, or take a loss in their life savings and move. Why don't these wonderful consultants close Clark AFB? We pay millions to keep our base there, and the money is somewhere in Switzerland and in Imelda's shoes. She sure is living high on the hog — where did she get the dough? I saw atrocities over there that would have closed this base in a minute if it had happened at George.

If you knew the fights that were going on over who gets the base, you would be appalled. Although I am sure the wonderful consultants already have it planned for whatever THEY WANT. A railroad, prison, or drug rehabilitation. Or AN AIRPORT — JUST WHAT THEY DIDN'T WANT. NONE OF IT MAKES ANY SENSE. JUST REMEMBER, IF IT WORKS, DON'T FIX IT. IF YOU THINK THE COMMUNIST COUNTRIES ARE JUST GOING TO LAY DOWN AND PLAY DEAD, YOU BETTER THINK AGAIN. We always had wars, big and little, my family has been in them every time. Please, don't close ANY base, you will regret it.

Sincerely,

Joan Mansfield

February 11, 1990

Captain Wilfred Cassidy
Hq. TAC/DEEV
Langley AFB, VA 23665

Dear Captain Cassidy,

Regarding the EIS for George AFB, California, I would like to express my chagrin, as a military retiree, over any loss or lessening of base service to the local retired population.

We retired in this area because George Air Force Base could provide hospital, base exchange, commissary, and recreational services that we were led to expect on retirement.

Whatever you can do to save our retirement facilities and services for us would be greatly appreciated.

Sincerely,

ALAN R. MacLaren
USAF (Ret)

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